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MULTILATERAL INVESTMENT FUND

BRAZIL

**ReFormar: Structuring an Innovative Market for Low-Income
Housing Renovation**

(BR-T1507, BR-G1012)

DONORS MEMORANDUM

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PROJECT SUMMARY

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REFORMAR: STRUCTURING AN INNOVATIVE MARKET FOR LOW-INCOME HOUSING RENOVATION - (BR-T1507, BR-G1012)

Brazil has historically suffered from a quantitative housing deficit which currently is estimated to be 5,8 million. Nevertheless, even when Brazilians do have access to housing, more than 24 million families are living in inadequate conditions (qualitative deficit). It is estimated that 14 million houses in the country have urban infrastructure inadequacy and 11,5 million face structural irregularities. These challenges are more frequently present in low-income households with 64,4% of the families whose income is up to three minimum wages, living with some sort of housing inadequacy. Moreover, when one disaggregates these numbers geographically, it is noticed that the northern region presents the highest percentage of buildings with structural irregularities. In the state of Roraima, 66,7% of the buildings are inadequate whilst in Amazonas, this number is 54,2%.

These challenges result in part from the fact that 85% of the housing constructions in Brazil are done without the supervision of engineers and/or architects, making it difficult to guarantee a minimum quality in the construction. However, 45% acknowledge that they do not hire the professionals due to financial constraints. This problem is more prominent for the low-income population since access to credit is made more difficult for them, although they are also the ones who are the most in need of housing reform services.

The housing deficit in Brazil also highlights another inequality: gender. Families headed by women are more likely to be facing some kind of housing problem. Moreover, data shows that women have less access to home loans in comparison to men, only 38% of them can obtain a house loan whilst 62% of men did so between 2001-2015.

In order to reduce the problem of the lack of adequate housing for the low-income population, it is necessary to expand the renovation market and access to housing credit for this public in Brazil. Hence, this project seeks to support the consolidation and scaling of Vivenda business model, also called *Vivenda Play*, which aims at capacitating and supporting specialized SME's into becoming micro-franchises focused on housing reforms for the low-income population and offers affordable housing credit to the final customer to be used as payment for their home reforms.

The project aims at accelerating 360 specialized SME's in a process called *Vivenda Play*. Among the accelerated SME's, 250 will be led by women, 180 will be led by entrepreneurs of African ancestry, and 36 will be in the North region. The project also aims at achieving 27,600 home improvements via the accelerated specialized SME's certified by Vivenda, including at least 19,320 home improvements hired by clients that are women and more than 2.760 home improvements in the North Region.

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Draft Resolution

AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF IDB LAB PROJECT INFORMATION SYSTEM

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ACRONYMS AND ABBREVIATIONS

BCS	Bank's Country Strategy
CBR	IDB Group Country Office in Brazil
CFO	Chief Financial Officer,
CRIG	Contingent Recovery Investment Grant
DICI	Integrity and Institutional Capacity Diagnostic
DNA	Diagnostic of Executing Agency Needs
EA	Executing Agency
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IDB Lab	Multilateral Investment Fund
IDB Invest	Inter-American Investment Corporation
LAC	Latin America and the Caribbean
NRTC	Non-Reimbursable Technical Cooperation
PAR90	Portfolio at Risk: gross loan portfolio is overdue by more than 30 days.
PSR	Project Status Report
R\$	Brazilian Reals
SDG's	Sustainable Development Goals
SME's	Small and Medium Enterprises

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Country and Geographic Location:	The project will be held in different regions of Brazil - the company already operates in South, Southeast, Northeast and Midwest, and the project will enable to start operations in the North Region.		
Executing Agency:	Associação Social Instituto Vivenda, for the Non-Reimbursable Technical Cooperation (NRTC) Vivenda Tecnologia LTDA, for the Contingent Recovery Investment Grant (CRIG)		
Focus Area:	Inclusive Cities – Urban Development and Housing – Financial Inclusion – Basic Services of Infrastructure		
Coordination with Other Donors/Bank Operations:	<p>This project has synergies with HUD's ProMorar Brazil - Promotion of New Housing Strategies in Brazil for Low-income Population (BR-L1596, BR-O0014 and BR-T1436) considering that both projects are aiming at structuring the home-improvement market, from the public and private sector perspectives. ProMorar Brasil works toward an enabling environment for this new market through the creation of a new federal first loss guarantee for home improvement microloans.</p> <p>The synergies between this IDB Lab and HUD's initiatives goes beyond tackling the qualitative housing deficit. They lie in the common goal of developing a currently inexistent market and thus allowing local governments to launch home improvement programs with the assurance that companies will effectively attend the calls for proposals and be in condition to implement the project¹.</p>		
Project Beneficiaries:	360 specialized SME's (250 will be led by women, 180 will be led by entrepreneurs of African ancestry, and 36 will be located in the North region), also, 27,600 low-income families that will benefit from a housing reform solution (at least 19,320 of these contracts will be done by women and more than 2,304 will be located in the Northern region ²)		
Financing:	Non- Reimbursable Technical Cooperation (NRTC):	US\$150,000	4%
	Contingent Recovery Investment Grant (CRIG):	US\$500,000	13%
	Total IDB Lab Funding:	US\$650,000	17%
	Counterpart:	US\$3.167.000	83%
	TOTAL PROJECT BUDGET:	US\$3,817,000	100%
Execution and Disbursement Period:	36 months of execution and disbursement for the CRIG, and the NRTC.		

¹ Several municipalities in this situation are currently carrying out a dialogue with HUD such as São Luis, Recife, Rio de Janeiro.

² Acre, Amapá, Amazonas, Para Rondonia, Roraima e Tocantins

Special Contractual Conditions:	<p>Conditions prior to the first disbursement of the NRTC and the CRIG will be, to the Bank's satisfaction: (i) designation of the project manager, (ii) selection of a dedicated employee to act as project coordinator, and (iii) establishment of the steering committee who will monitor the project.</p> <p>In addition, prior to the first disbursement of the CRIG component, Vivenda will present to the Bank's satisfaction: (i) financial statements as of the date of the last closed month, (ii) evidence of compliance with applicable financial and operating conditions (covenants), (iii) contracting plan for the use of the resources requested, (iv) a signed promissory note for the amount requested.</p> <p>Prior to the second and the disbursement of the CRIG component: Vivenda will also have to present evidence of: (i) having used at least 90% of the resources previously disbursed by IDB Lab in the items defined in the contracting plan, and (ii) having contributed a counterpart at least equal to the amount disbursed by IDB Lab.</p>
Environmental and Social Impact Review	The project has been reviewed and classified under category C on March 23, 2022, in accordance with the IDB's Environment and Safeguards Compliance Policy (OP-703).
Unit responsible for disbursements	LAB/CBR

I. The Problem

A. Problem Description

- 1.1. **Housing deficit and inadequacies.** In 2019, the total number of inadequate urban households in Brazil, was more than 24 million³. Of this total, 14 million households had inadequate urban infrastructure, 3.5 million are built on inadequate land, and 11.25 million households have substandard quality construction (lack or deficiency of: water supply, separate bathroom, housing separate sleeping rooms, defective or inadequate ceilings or floors, or overcrowded space⁴). The highest percentage of inadequate housing is seen in the Northern Region of the country, with 66,87% in Roraima and 54,21% in Amazonas⁵.
- 1.2. Moreover, 85% of the buildings in Brazil are not built by engineers or architects⁶, which makes it difficult to guarantee quality construction work. An important part of the problem is a result of limited funding: while 70% of people would like to hire a professional (engineer or architect), 45% believe they cannot do so due to financial constraints.
- 1.3. This problem is even worse for the low-income population. Almost 2 out of 3 families that suffer qualitative housing deficit are low-income⁷. For segments D/E⁸, the problem is even more acute, with 82% saying that they need a house reform (LCA, 2012). The magnitude of the problem is serious. 58.8% of houses with housing quality deficit are located in metropolitan areas.
- 1.4. The housing deficit in Brazil also highlights a gender gap: among the families with housing deficit, 60% are headed by women⁹, and data shows that access to home loans for women is lower in comparison to men, being 38% for women and 62% for men between 2001-2015.¹⁰
- 1.5. **The housing reform marketplace in Brazil.** In the search of housing improvement and renovation solutions, the affected population finds a complex and atomized marketplace, in which each actor (architects, engineers and service workforce, building materials shops and financial institutions) work individually and in a disconnected way, not adapted to the needs and characteristics of the vulnerable population¹¹.
- 1.6. Three major factors make it particularly difficult for low-income and vulnerable populations to tackle housing reforms:

³ Fundação João Pinheiro (FJP). [Nova metodologia e resultados do Déficit Habitacional e Inadequação de Moradias no Brasil](#) (2020), 26

⁴ Those are the elements in Brazilian definition of qualitative housing deficit.

⁵ Ibid, 32

⁶ [Conselho de Arquitetura e Urbanismo, 2015.](#)

⁷ Earning up to three minimum wages.

⁸ According to the Brazilian Institute of Geography and Statistics, class E in Brazil corresponds to a family salary range of up to 2 minimum wages and class D, from 2 to 4 minimum wages. A minimum wage is approximately \$250.

⁹ Fundação João Pinheiro (FJP). [Nova metodologia e resultados do Déficit Habitacional e Inadequação de Moradias no Brasil](#) (2020), 20.

¹⁰ [Eloy, C.; Tribouillard, C. Women in the Brazilian housing finance market, 2022.](#)

¹¹ [Conselho de Arquitetura e Urbanismo, 2015.](#)

- i. Very few architects and engineering companies have the low-income market as a business target. A 2018 study¹² shows that around 70% of the architects want to work for the low-income customers, but only 8% currently work for or have worked in the past attending to these customers.
 - ii. While self-employed population can obtain business microloans, there is limited availability of housing rehab loans accessible to customers of segments D/E where the average ticket size is of about US\$1,500, and informal income has to be considered in order to get bank approval. Also, there are limited financial options for SME's that provide housing reforms to low-income clients.
 - iii. In the North Region, the housing reforms are especially difficult to implement for low-income population. In the beginning of 2021, in a mapping made by Vivenda, of 90 businesses dedicated to the low-income market in Brazil, only 3 were from the North region. and looking at the distribution of professionals from the sector, 53.8% of the Brazilian architects come from the Southeast region, while 3.57% come from the North region, which impacts directly on the development of the market.
- 1.7. As a result of this situation, there is a significant gap between the 11 million homes in need of housing reforms and a complex and ineffective construction and housing microfinance market which prevents low-income population from repairing their homes and improve their quality of life. In Latin America, there are similar programs such as Patrimonio Hoy from Cemex. Although the focus of this Mexican initiative is mostly the construction of new units, and not just renovations, the logic of offering a complete solution, with technical assistance and financing, was one of the bases for structuring this project. This Cemex program has already served more than 2.3 million people in several countries in the region.
- 1.8. **The work of Vivenda.** Vivenda is a pioneer in Brazil in seeking to address the issue of housing improvements through a business approach¹³. Traditionally, this sector was operated in the country through the logic of self-construction - in which the families themselves carry out their works - mainly with their own savings or consumption-oriented microcredits.
- 1.9. Vivenda has innovated in its intervention model, creating a complete solution in renovation, combining technical assistance, material, labor, and credit, and delivering the finished work; and in the financing structure, funded through private bonds that make it possible for the end user to pay the renovation in up to 30 installments that fit in the pockets of the residents.
- 1.10. Having carried out more than 3.500 renovations in this model, Vivenda proved that this market was viable, and thus fostered the birth of several other similar businesses in different parts of the country, SME's that started focusing on housing renovations for low income families. Instead of considering them competitors, Vivenda understands the fundamental role of the birth of new businesses (mostly Small and Medium Enterprises) in structuring this market.
- 1.11. As a way to leverage these new operations, Vivenda changed its business model creating the Nova Vivenda Platform, to integrate and facilitate the journey (i) of families who want

¹² From CAU (Architecture and Urbanism Council)

¹³ See <https://www.christenseninstitute.org/blog/a-market-creation-story-vivenda/> by Efosa Ojomo, author of The Prosperity Paradox: How Innovation Can Lift Nations Out of Poverty

to renovate; (ii) the executors who want to operate in this market; and (iii) funders (public or private) who want to promote the model.

II. The Innovation Proposal

B. Project Description

- 2.1. **The objective** of the project is to provide home improvements to the low-income¹⁴ segment in Brazil and promote a micro franchising model for specialized¹⁵ SMEs¹⁶ to help with such improvements, allowing them to increase their revenues.
- 2.2. The project's theory of change is that, in order to expand adequate housing for the low-income population, it is necessary to expand the housing reform market and increase access to housing finance, for low-income population and SME's participating in the market. In order to generate a structural and permanent change in the low-income renovation market in Brazil, the proposal is to consolidate and scale up the unique and innovative B2B2C solution developed by the Brazilian startup Vivenda.
- 2.3. In this context, the project will support **the consolidation and scaling of the Vivenda business model which transfers essential skills and supports small businesses focused on housing reforms for low-income population and supplies affordable housing reform financing.**
- 2.4. For low-income population, the process of reforming a house includes accessing support for project design, materials, technical assistance, labor and supervision, as well as financing adapted to their socioeconomic conditions, for example microloans that accepts applicants without formal employment, and considers informal, seasonal and part-time income.

With a systematic and complete approach, the solution presented by Vivenda is unique in the sector of low-income renovation market in Brazil, as it provides a full scope solution dedicated to vulnerable families and composed by three lines of support:

- i. Vivenda Play is a technology-enabled service that simplifies and reduces the final price of certified professionals for families that need to start a housing renovation process. It targets specialized SME's interested in entering the low-income renovation market. Through Vivenda Play the companies receive acceleration support to design business models dedicated to the sector, to develop their capabilities of negotiation and sales, to have an assurance of quality of services and be able to use technical tools (as standardized projects for improvement of kitchens, bathroom, bedroom, ceiling, etc.) and to have access to microfinance product (as the credit analysis tool developed for this segment), developed by Nova Vivenda platform. As of today, Vivenda play has 71 SME's affiliated.

¹⁴ The clients served by Vivenda belong to classes C (family income between 4 and 10 minimum wages) and classes D and E (family income below 4 minimum wages). Verification is through different documents: pay slip, or in case of self-employed, it is done via receipts and bank statement.

¹⁵ Enterprises with engineers, architects and building technicians able to carry out low-complexity renovations.

¹⁶ This operation will follow the definitions in the Brazilian Complementary Law no. 123/2006 and 128/2008 which englobes in the SME's group, four types of enterprises: individual microentrepreneur, which has revenues up to BRL 81,000, micro-enterprise whose revenue is less than or equal to R\$ 360 thousand, small enterprises as the ones whose revenue is greater than BRL 360 thousand and less than or equal to BRL 4.8 million and medium enterprises as the ones whose revenue is greater than BRL 4.8 million and less than or equal to BRL 300 million.

- ii. Nova Vivenda: is an end-to-end marketplace that connects specialized SME's to the customers. The platform provides: sales and customer management, from the prospect lead, until the renovation is finished, including, customer score analysis, connecting the SMEs with the customer, managing the project status, assuring the documents are signed and managing the civil works until the renovation is finished and storing the support documentation for audit. Currently it has 71 SME's and 10,156 end users that have registered. In summary, it helps specialized SME's with:
 - a) clear information about the renovation type, costs, deadline, payment conditions, etc.
 - b) the financing solution developed by Vivenda, the i2 Vivenda, a loan arrangement for the low-income families, so that they can have the opportunity to pay the renovation in up to 30 installments, while the specialized SME receives the payment when the renovation is concluded, and the support documentation is presented to Vivenda, and
 - c) receive communications related to accounts receivable. Also, inside the Nova Vivenda Platform, the specialized SME's also have access to a tool for analyzing credit risk and generate a credit score of potential clients, and, and control panels of the performance of the business that allow the companies connected in the platform to evolve.
 - iii. i2 Vivenda is the new financial mechanism that has been structured by Vivenda to make access to financing viable, considering the socioeconomic characteristics of the families. This financial mechanism makes it possible to provide housing renovation loans to low income clients the customer and finance the payment in up to 30 installments. The i2 Vivenda is separated from Vivenda balance sheet, and it is a structure based in debenture (bond) issued locally that is used to securitize each renovation contract, and pay upfront to the SMEs, while the customer repays in a longer time. So far 635 renovations have been performed with this financial mechanism.
- 2.5. Vivenda's solutions are made available to the end customer on the Nova Vivenda platform, and the risk analysis, credit granting, and collection process are the sole responsibility of Vivenda. The architecture and engineering companies can, if necessary, support collection, making visits to clients in arrears, but the performance of the loan portfolio is the full responsibility of Vivenda.
- 2.6. Funding for the credit portfolio is carried out by Vivenda through a securitization of housing reform loans - the first classified as a "social impact securitization" in Brazil. Specific microcredits for low-income people who want to renovate their homes are offered at lower prices than traditional microcredits on the market (current interest on Vivenda financing is 2% per month, while other personal loan alternatives without property guarantee charge an average of 7%+ per month), and without the need for collateral (one of the main barriers for low-income families to access credit). The securities issued are purchased by impact investors, and in this way, Vivenda can fund the growth of the business platform, efficiently and with attractive rates for end customers.
- 2.7. Initial experiences with the new credit platform generated good quality portfolios (the team received reports of a portfolio of R\$1m with PAR90 of 7%, only slightly above the levels of microcredit common in the Brazilian market). With this proposal, Vivenda is expected to adjust the business model seeking an improvement in productivity, efficiency, and risk

control (the IDB will be able to support it with its knowledge of best practices in the microcredit market in the region).

- 2.8. Vivenda, through the 3 lines of action explained earlier, has been able to develop specific solutions for all the challenges of the links in the housing reform value chain and run the pilot of the complete solution. To guarantee a real impact on the lives of the most vulnerable people and a change in the sector in Brazil, and with support of IDB Lab, Vivenda will consolidate and scale the complete solution. In order to do that, the project will be structured in the following three main components: (i) consolidation of micro franchising mode, (ii) upscaling of the micro franchising model, and (iii) knowledge dissemination and project documentation.

Component I: Consolidation of micro franchising mode (IDB Lab: US\$214.000; and Counterpart: US\$180.500)

- 2.9. **The objective** of this component is the selection and training of existing companies in the market that are interested in operating in the market for low-income residential renovations. The training part will be done with Vivenda Play methodology and through the Vivenda Institute, the teams will receive specific training in negotiation and sales to the most vulnerable clients, standardization of services, reformulation of business models, etc. With a complete training (customized acceleration based on a multidimensional business analysis system, carried out remotely in 4 to 6 weeks, then periodical monitoring), it is expected to add value to the companies' proposal and that they be incorporated into the Nova Vivenda platform as certified service providers. In this component, Vivenda aims to escalate the number of micro franchisees trained by the methodology, and the expected impact is of 360 new SME accelerated by the end of the project. Vivenda will develop marketing actions to reach SME's that are led by at least one founder that it is a women and SME's that are led by one founder that has African ancestry¹⁷.

- 2.10. The **main activities** to be financed will include:

Train companies within Vivenda business model, Vivenda Play: with the use of the Vivenda Play methodology and through the Vivenda Institute, the teams will receive specific training in negotiation and sales to the most vulnerable clients, standardization of services, reformulation of business models, etc. With a complete training (customized acceleration based on a multidimensional business analysis system, carried out remotely in 4 to 6 weeks, then fortnightly monitoring), it is expected to add value to the companies' proposal and that they be incorporated into the Nova Vivenda platform as certified service providers.

Incorporate new companies from the North region of Brazil into the micro-franchise funnel: With the support of strategic partners from the private sector, such as the Coalizão pela Habitação, led by the Artemisia accelerator, and the Center for Studies and Advanced Systems of Recife, from Porto Digital, will seek to promote the creation of reform companies in neglected regions of the country, and/or identify existing companies with an interest in acting with the most vulnerable segments. These partners will constitute a Network responsible for identifying relevant organizations in the North region to face this challenge (institutes, universities,

¹⁷ Brazilian population self-identified as of Afro-descendent, preto (black) or pardo (mixed ethnicity).

accelerators, NGOs, etc.) and structure the agenda of mobilizations and connections, in addition to the exchange of knowledge and methodologies.

Develop partnerships with the public sector: To add value to the current micro-franchise model and expand the potential market of your companies, specific tools will be developed to facilitate the connection between companies and the public sector, particularly local governments. For companies, it will seek to facilitate access to information and guide the modus operandi to access, for example, municipal subsidies under the ATHIS Law¹⁸, guarantee of first losses¹⁹, etc. For local governments, standardized public contracting information and processes will be provided. The Vivenda Institute will be the mobilizer of the Municipal and State Secretaries of Urban Development and Housing, together with the support of the IDB's HUD team.

Promote green construction and resilience to climate change: Existing projects for the use and management of sustainable materials in construction sites will be supported, in association with strategic actors such as construtechs²⁰, as well as reporting on how and how much the reforms contribute to mitigation (e.g., protection against storms and rains, sanitary contamination, etc.) and adaptation (egg energy and water savings) to climate change.

- 2.11. The main expected outputs of this component are: (i) having at least 360 SMEs, including 250 SMEs led by women, 180 SMEs led by Afro-descendants, and 36 that passed the acceleration process of Vivenda Play; (ii) having signed cooperation agreements with, at least, 3 local government; (iii) having implemented a green impact measurement system, and (iv) having qualified 300 SMEs in sustainability course for home improvements.

Component II: Upscaling of the micro franchising model (IDB Lab: US\$400.000; and Counterpart: US\$2.935.500)

- 2.12. **The objective** of this component is scaling Vivenda's business model. The main activities to be financed will include: (i) expand the portfolio; (ii) increase funding; and (iii) increase access to negotiated material.
- 2.13. **Expand the portfolio.** The dissemination of the Nova Vivenda platform through strong marketing and disclosure actions will allow the commercial offer to be disseminated and the number of end customers to be increased. With the increase in clients, the necessary adjustments will be made to the platform and to the tools offered online.
- 2.14. **Financial resource scale.** After an initial collection of US\$1 million, through a blended finance with philanthropic and traditional financial resources, to support its initial operation process (i2 Vivenda), Vivenda will seek, with this project, to expand the offer of microcredits and advance in the structuring of a second financial vehicle, the i3 Vivenda, with greater scope. In addition, the business model of the Nova Vivenda platform itself will be refined to guarantee the sustainability of the initiative.

¹⁸ [Law-11.888 of 2008](#) proving low-income families with free technical assistance for the design, construction and improvement of social housing, commonly called "ATHIS Law".

¹⁹ Since 2019, the HUD division of the IDB has had a strategic partnership with the National Housing Secretariat of the Ministry of Regional Development, formalized through the ProMorar technical cooperation (BR-T1436), under which the creation of a federal guarantee is being designed of first losses for microcredit for housing reform (BR-L1596).

²⁰ Such as the partnership that Vivenda has with [Ambar](#), a Brazilian Construtech working with sustainable building technologies, which took part to IDB's Open Innovation initiatives in 2019.

- 2.15. **Local materials.** In order to offer quality materials at more affordable prices for vulnerable population, Vivenda has been developing commercial partnerships with large construction material companies. Currently, Vivenda (startup) has business alliances with 6 companies in the sector, including Votorantim and Gerdau. With this project, it is expected that this initiative will gain scale, seeking greater inclusion of neighborhood stores in the Nova Vivenda platform, consolidating the role of resale of construction materials negotiated by Vivenda. Through Nova Vivenda, more connections will be made possible between neighborhood stores and architecture and engineering companies that are part of the micro franchising model.
- 2.16. **The main expected outputs** of this component are: (I) to have at least 252 architecture and engineering SME's (70% number of SMEs that have completed Vivenda Play acceleration process) as part of the Nova Vivenda platform, (ii) to have at least 138,000 of families interacting²¹ with the platform regarding a potential home improvement , (iii) to partner with 500 commercial SME's who will be providing construction materials through the Nova Vivenda platform, (iv) to have at least 48,300 low-income people that will get home improvement financing through Vivenda.

Component III: Knowledge dissemination and project documentation (IDB Lab US\$36.000; and Counterpart US\$51.000)

- 2.17. **The objective** of this component is consolidating and disseminating knowledge with a focus on contributing to the structuring of the market for low-income housing reforms in Brazil and in the region. The written materials will be translated into Spanish and/or English, aimed at disseminating the business model to other countries in the Latin American and Caribbean region. The educational materials(s) will be aimed at disseminating the initiative to public authorities, and in particular subnational governments, to arouse interest and broaden knowledge.
- 2.18. **The main activities** to be financed will include: (I) documentation of the project and its achievements, successful experiences, (ii) organization of events to share information about the project and its achievements, successful experiences.
- 2.19. **The main expected outputs** of this component are (i) a publication with successful experiences, and their respective dissemination; (ii) a video recording the experience and learnings of the project; and (iii) events on the project and its achievements, successful experiences.

C. Project Results, Measurement, Monitoring and Evaluation

- 2.20. The executing agency will be responsible for collecting the data and reporting on results and achievements as per the results matrix of the project. Vivenda will develop a monitoring plan at the start of the project that will ensure tracking and measuring of indicators. Additionally, Vivenda will report to the Bank every six months through a Project Status Report (PSR) and submit a Project Completion Report (PCR) on the project's final outcomes.
- 2.21. **Indicators in the Results Matrix.** The project expects to impact 69,000 lives, by supporting housing reforms for at least 27,900 families of which 19,320 will be contracted by clients that are women, and 2,304 in the North Region. Also, the project is expected

²¹ It will be considered the registration forms that can come via a form on the website, contact via social networks, and which are kept in a single database by the Business team.

to impact positively on the financial viability of the specialized SME's in the construction section, which will result in R\$ 30.3 million expected to be contracted for housing reforms through the Vivenda platform.

- 2.22. **Vivenda Projections.** Vivenda change in its business model has meant going from being a direct implementor of housing reforms to be an originator and manager of housing reforms by helping low-income families manage their interactions with the housing reform ecosystem architects, designers, certified SME's and finance providers. As result, income from Vivenda comes primarily from management of reforms, consulting fees and origination of loans in agreement with financial institutions.
- 2.23. In 2020 and 2021, Vivenda had gross revenue of US\$225,145 and US\$149,000 respectively. In 2022 it is estimated that gross revenue will reach US\$344,000, gross revenue estimations for 2023, 2024 are expected to reach US\$1,4 million, and US\$2,4 million. According to Vivenda's projections breakeven point will be achieved in 2025, with gross revenue of US\$2,4 million and net income above US\$400,000. That would allow Vivenda's to start making semiannual repayments of the CRIG resources of the project back to the IDB Lab, which are expected to start in last half of 2025. Those semiannual repayments will be around US\$83,333, if all US\$500,000 CRIG resources are disbursed, and could be lowered by about US\$16,667, if Vivenda reaches the two gender and social impact goals. Annex V includes the historic and projected financial statements.

III. Alignment with IDB Group, Scalability, and Risks

B. Alignment with IDB Group

- 3.1. The project is aligned with several IDB Group strategies, such as Vision 2025 (AB-3266), Institutional Strategy (AB-3190-2) and Corporate Results Framework 2020-2023 (GN-2727-12), contributing to the challenges of (i) social inclusion and equality, when aims to improve housing access to vulnerable families; (ii) productivity and innovation, when aims to expands the number of micro franchising capacitated in social housing renovation through an innovative B2B2C solution. Also, the project's main goal, which is generate a structural and permanent change in the low-income housing renovation market in Brazil (and region), aligns with the strategy with Brazil 2019-2022 (GN-2973) in the priority area of social inequalities' reduction, and the specifics goals are related to crosscutting themes such as, (i) gender and diversity, when focus actions to improve housing access and business training for women, African descendent, and (ii) environmental sustainability when aims to measure the green impacts of the housing renovation.
- 3.2. Furthermore, approximately 16% of the total IDB funding for this project will be invested in climate change mitigation and adaptation activities according to the joint MDB approach on climate finance tracking²². This contributes to the IDB Group's goal of increasing the financing of projects related to climate change to 30% of total approvals by the end of 2020. This proposal has been co-designed with CSD/HUD and in close dialogue with KIC/CBR.
- 3.3. The project is of great interest CSD/HUD because housing improvement is a priority development area for CSD HUD, in particular in Brazil in the framework of the Conditional

²² Following ProMorar (BR-L1596) estimations from HUD.

Credit Line in preparation (BR-O0014). It will complement HUD's portfolio in Brazil, specifically (i) the ProMorar Brazil (BR-L1596) currently in preparation with the federal government (Secretaria Nacional de Vivienda), which includes the creation of a federal guarantee mechanism for home-improvement microcredits (thus targets as clients Brazilian SMEs of this new market); the ProMorar Recife (BR-L1609), which includes home improvements as a key part of the foreseen slum upgrading interventions (and where the municipality already has a partnership with Vivenda); among others. This interest has been growing since 2019, thanks to an Open Innovation event in housing held at CUBO in collaboration between HUD, KIC and IDB Lab, where a dialogue between public and private actors on this topic began.

- 3.4. This project contributes to SDG 1, No Poverty, target 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance; SDG 8, Decent Work and Economic Growth, target 8.2, achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors; and SDG 9, Industry, Innovation, and Infrastructure, target 9.4, by 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

C. Scalability and financial projections

- 3.5. Scalability. It is estimated that 14 million houses in the country have urban infrastructure inadequacy and 11,5 million face structural irregularities. Vivenda already has a track record of more than 3,000 renovations delivered, and a five-year experience in managing a blended finance credit portfolio adapted to low-income customers. With IDB Lab's support Vivenda will scale its operations and reach 27,600 low-income families that will benefit from a housing reform solution.
- 3.6. Vivenda will scale the project results by migrating its services to a digital platform that will accelerate and certify construction SME's as micro franchises specialized in low-income housing renovations therefore simplifying the reform processes for families that in the existing Brazilian Market have to deal with several unknown actors (architects and designers, labor force, sellers of material, construction work supervisors, and finance providers.
- 3.7. Scale will also be enabled by increasing low-income families' access to finance via the Nova Vivenda Platform, which will provide an easy way for the families to apply for loans that will be provided by local providers with agreements signed with Vivenda to offer specialized credit lines.
- 3.8. The project's scalability entails the development of new SMEs using the Vivenda Play acceleration program. As companies go through the program, they are able to serve more customers, with a capillarity of action throughout Brazil, which makes Vivenda's product reach different regions with a single quality standard. For this to be possible and for the consumer experience and quality to be more uniform, Vivenda also intends to invest in technology to be able to reach customers even in remote locations and accompany these customers at all stages of the journey, understanding and evaluating data. This can bring

improvements to the process on an ongoing basis. Another relevant point of scalability is the development of partnerships for financing products, which make it possible for credit lines to always be a product differentiator and adapted to the reality of the market. Vivenda works continuously with companies specialized in innovative impact roles, such as Gaia. Another relevant scalability strategy is to seek partnerships with the government, especially municipalities, which have housing improvement agendas and may have Vivenda as an important execution partner in the sector. The market has a repressed demand on a large scale and the possibility of scale comes from the integration of tools and design of a product that can be assertive to the needs of these customers.

D. Conditions for the Contingent Recovery Investment Grant

- 3.9. **Period of Execution and Disbursement.** The project must be executed within a period not exceeding 3 years, counted from the date of signature of the Agreement. During this period, the Executing Agency is required to report progress in the PSR.
- 3.10. **Disbursement Mechanism.** Resources will be disbursed in up to three disbursements, for a maximum of US\$200,000 each disbursement for a maximum cumulative total amount of US\$500,000 to be made during the Disbursement Period, at Vivenda's request, against the signing of a promissory note conditioned to the triggering milestones and subject to compliance with the conditions for disbursement, as well as others that may be requested by IDB Lab.
- 3.11. **Conditions for the disbursement of Contingent Recovery funds.** In order to make disbursements, the Executing Agency must report to IDB Lab the fulfillment of the conditions agreed at the time of the disbursement request, as follows:
 - 3.12. For all disbursements, a request accompanied by: (i) general conditions for the disbursement of the contribution detailed in the Agreement, (ii) financial statements as of the date of the last closed month, (iii) report of compliance with financial and operating conditions prior to disbursement, (iv) no objection to the updated and specific contracting plan for the use of the resources requested, and (v) a promissory note conditional upon compliance with the triggering milestones signed for the amount requested.
 - 3.13. For the second and third disbursements, in addition, the EA will have to present evidence of: (i) having used at least 90% of the resources disbursed by IDB Lab in the items defined in the contracting plan, and (ii) having contributed a counterpart at least equal to the amount disbursed by IDB Lab.
- 3.14. **Recovery of the Contingent Recovery Investment Grant.** Vivenda will be subject to repay the recovery amount, if it meets the Triggering Milestone measured during the Recovery Period and in accordance with the stipulations.
- 3.15. The repayment period lasts 36 months and begins on the first repayment date immediately following the date of the last disbursement.
- 3.16. The Recovery amount will be calculated as agreed in the definition of the Triggering Milestone and after application of the Impact Incentive. Repayment must be made regardless of whether there has been a partial cancellation or partial disbursement of the Contribution.
- 3.17. Vivenda is obligated to make up to 6 semi-annual equal repayments to BID Lab during the recovery period, starting in the first repayment date, which occurs after Vivenda meets the Triggering Milestone. Repayment dates are June 15, and December 15.

- 3.18. Each semiannual repayment amount will be calculated by dividing the total amount due divided by the number of payments left in the repayment period, at the time of the calculation. The triggering Milestone is reached when Vivenda's annual gross income is equal to or greater than US\$2,000,000.
- 3.19. Th triggering milestone will be applied 60 days prior to the first semiannual repayment date, and again 60 days prior to each of the following semiannual repayment dates if not met, until compliance or the end of the contingency period, whichever comes first.
- 3.20. The maximum Contribution Recovery of Contingent Recovery resources is US\$500,000. In the event that Vivenda demonstrates that it has met the social impact targets defined in the Donor Memorandum (geographic location and gender), the amount to be repaid to IDB Lab will have a deduction of up to US\$100,000 (see impact incentives paragraph).
- 3.21. **Impact Incentives.** If Vivenda reaches 20,000 or more improvements contracted by women, it will receive a discount on the amount to be repaid to BID Lab of US\$2.5 for each home improvement contracted by a woman during project execution up to a US\$50,000 maximum. Also, Vivenda will receive a discount of US\$20 for each home improvement contracted in Northern States of Brazil, up to a \$50,000 maximum.

E. Project and Institutional Risks

- 3.22. The project faces three major risks: technology risk, market risk, and credit risk.
- 3.23. **The technology risk** derives from potential glitches or shortcomings in Vivenda platforms which may result in low adoption by construction SME's. A mitigation to this risk is Vivenda's proven track record both executing reforms and interacting with 40 construction SME's digitally which has generated essential input to make Vivenda Play, Nova Vivenda and i2Vivenda user friendly tools. Also, a factor in mitigating this risk will be the fact that SME's will find valuable the use of Vivenda's tools to generate new business by obtaining certification and visibility as well as to connect to clients that will be able to obtain financing for their renovation through Vivenda's negotiated credit lines.
- 3.24. **The market risk** of the project derives from not having enough skilled construction SME's to achieve the expected results. Since the project will be implemented under a B2B2C logic, this means that it will depend on finding enough specialized SME's to implement the reforms. As a mitigation to this risk, Vivenda will use digital marketing strategy using social media to reach out to a large base of SME's. In addition, Vivenda's acceleration and certification process will ensure that SME's that are plugged into Vivenda's platforms will execute the housing renovations timely and with expected quality.
- 3.25. **The credit risk** of the project is related to the ability and willingness to pay from families applying for rehab loans via i2Vivenda platform. Delays in construction, shortages of skilled labor, cost overruns or adverse conditions may increase the costs of micro franchisee's low-complexity housing renovations, which may translate into cash flow issues for both the companies and the end uses that may have to increase its financing or use third party financing. A mitigation of the risk is the credit scoring that Nova Vivenda will provide to SME's and Vivenda's financial partners, which draws data from an outsourced company that is specialized in credit score with whom Vivenda has a contract. The score has been developed together with Vivenda, as the low-income customers have a very different profile compared to the standard market score. Moreover, this score considers the income, including informal income, and it does so by analyzing bank

statements, the location of the customer, the tax ID information, and other sources. After this information is processed, the score developed together with Vivenda gives back a credit analysis and the suggested payment conditions (as term, upfront payment, instalments, etc.). The SME is not allowed to change this payment condition, and must use the score tool for every customer, prior to contract signing.

IV. Instrument and Budget Proposal

- 4.1. The project has a total cost of US\$3,817,000 of which US\$650,000 (17% will be provided by IDB Lab, and US\$ 3,167,000 (83%) by Vivenda. IDB Lab funding includes an NRTC of US\$150,000 and a CRIG of US\$500,000.
- 4.2. The project includes the use contingent recovery investment grant of US\$500,000 given that the business model implemented by Vivenda could generate a capacity to repay the resources if the goals established in the term sheet are met (Annex VII). Thus, starting in the month 36 after the project approval when Vivenda's gross sales reach US\$2,000,000, Vivenda will start to repay the CRIG funds disbursed to the IDB Lab in equal semiannual repayments until the end of the repayment period which will last 36 additional months starting at the date of the last disbursement.
- 4.3. From the amount due Vivenda might be able to deduct a maximum of \$100.000 which includes: a) US\$2.5 for each home improvement contracted by a woman, up to a maximum of US\$50,000, and b) US\$20 for each home improvement implemented in the Northern States up to a maximum of US\$50,000.

Summary Budget (US\$)

	IDB Lab NRTC Executed by Instituto Vivenda	IDB Lab CRIG Executed by Vivenda Tecnologia LTDA	Counterpart		Total
Project Components			In Kind	In Cash	
Component 1: Consolidation of micro franchising model	114.000	100.000	180.500	0	394.500
Component 2: Upscaling of the micro franchising model	-	400.000	935.500	2.000.000	3.335.500
Component 3: Knowledge dissemination and project documentation	36.000	0	51.000	0	87.000
Grand Total	150.000	500.000	1.167.000	2.000.000	3.817.000
% Of Financing	4%	13%	31%	52%	100%

V. Executing Agency (EA) and Implementation Structure

B. Executing Agency(s) Description

- 5.1. Vivenda Tecnologia LTDA for the CRIG, and Associação Social Instituto Vivenda for the NRTC will be the Executing Agencies of this project and will sign the agreement with the Bank.
- 5.2. Vivenda Tecnologia LTDA is a startup that was created in 2014 by three founders with experience in the field of social housing. It was born with the social impact goal of making housing reforms accessible to low-income families. It has implemented close to 3,000 reforms. Vivenda has a team of around 20 people plus the three founders. The three founders are part of the executive team, formed by 7 people: Marcelo Coelho (founder and CEO of the platform); Fernando Assad (Founder, IR director and executive director of Vivenda Institute), Igiano Lima (Founder and BI Director), Duda Alcântara (Executive Director of Vivenda Institute); Isabela Caper (CMO); Gabriela Botelho (CFO) and Anderson Valriani (CTO). The majority of the team is under the CMO structure and is dedicated to growth opportunities and improvements of Nova Vivenda Platform, together with the Tech team. Vivenda also has a dedicated team that is responsible for the business development of the SMEs which are plugged on Vivenda Play.
- 5.3. During its first years in business, it has been recognized as a market leader in managing housing reforms for low-income population using technology tools, but it has also learned that in order to scale up the number of reforms it had to work not directly, but through the ecosystem of actors that intervene in the housing reform market in Brazil. This pushed Vivenda to redesign its operational model and implemented a platform, having already the team to support the project in the marketing, operational and finance management side. In this new approach it has been able to add 40 micro franchisees (Vivenda Certified Construction SME's) to the platform and is already performing low-income house renovation in different parts of Brazil.
- 5.4. The project will be co-executed by Instituto Vivenda (which will execute the NRTC), which is the non-profit arm of Vivenda Tecnologia LTDA (which will execute the CRIG). With a focus on inclusion and diversity, the Institute has the purpose of being a benchmark in the training of professionals in the sector, from engineers and architects to the execution team of the works, proposing to reserve specific spaces in activities for the integration of minorities. as members of the LGBTQIA+ community, afro-descendants, migrants or others. In addition, it is responsible for generating knowledge products related to the low-income housing reform sector and seeking connections with the public and private sectors (with the support of large corporations in the construction sector, such as Gerdau and Vedacit) to speed up the structuring from the market.
- 5.5. **Integrity Review.** The project team, with the assistance of OII, conducted an integrity due diligence in accordance with the Integrity Due Diligence Guidelines (OP-474-1) in relation to this project. The project team and OII found that certain aspects of the project have not yet been defined, specifically, new financial partners²³ that would provide financing to end users and securitization services which may present an integrity and/or reputational risk to

²³ In the past Vivenda has used the following financial partners: Gaia, has performed the securitization of the loans, and Companhia Hipotecária Piratini, which does the financing contracts to be securitized by Gaia, and Itau and Bradesco as financial partners.

BID Lab when such incoming entities are identified. The project team and OII believe that this risk is adequately mitigated because an integrity analysis will be conducted on such entities following the Integrity Due Diligence Guidelines, to the satisfaction of BID Lab. If a certain financial partner is not approved by IDB Lab, Vivenda will have to present a suitable substitute to continue disbursing project funds.

B. Implementation Structure and Mechanism

- 5.6. Vivenda Tecnologia LTDA and Instituto Vivenda will establish an implementation unit to execute project activities and manage resources effectively and efficiently. Vivenda Tecnologia LTDA and Instituto Vivenda will also be responsible for providing progress reports on project implementation. Details on the structure of the execution unit and reporting requirements are in the project technical files.
- 5.7. During the implementation of the project, Vivenda will keep IDB Lab well informed about any advancement and will coordinate meetings among all parties whenever it is necessary.

VI. Compliance with Milestones and Special Fiduciary Arrangements

- 6.1. **Disbursement by Results, Fiduciary Arrangements.** The Executing Agency commits to IDB Lab's standard results-based disbursement arrangements, procurement²⁴ and financial management policies²⁵ applicable to the private sector, consistent with the Financial Management Guide for IDB Financed Projects (OP27312) version June 12, 2019 and as specified in the "Milestone Management and Financial Monitoring Guide for IDB Lab and SEP Technical Cooperations".
- 6.2. **Results-based disbursements.** The Country Office of Brazil will monitor the Project. Monitoring will be undertaken in accordance with the performance and risk management policies (fulfilment of milestones) established by the IDB Lab in April 2008. Project disbursements will be contingent upon verification of the achievement of milestones (pre-determined outputs critical to achievement of the development objectives). Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the results matrix indicators and project's objectives.

VII. Information Disclosure and Intellectual Property

- 7.1. **Information Disclosure.** This document contains confidential information related to one or more of the ten exceptions to Access to Information Policy and will be initially treated as confidential and made available only to Bank employees. This document will be disclosed and made available to the public upon approval.
- 7.2. **Intellectual Property.** Vivenda Play, Nova Vivenda and i2 Vivenda are technologies and methodologies developed by Vivenda. Intellectual property related to them will not be shared with the IDB Lab. Additionally, the intellectual property of this Project related to new functionalities developed with IDB funds and work financed by IDB Lab and the results

²⁴ Link to the Policy: [Procurement of Works and Goods Policy](#)

²⁵ Link to the document [Operational Guidelines for Management of Milestones and Financial Supervision for MIF and SEP Technical Cooperation Projects](#)

obtained under the Project will be the intellectual property of the Executing Agency, this will include a publication with successful experiences and a video recording the experience and learnings of the project. The Executing Agency will grant a non-exclusive and royalty-free license to the IDB, including the rights of use, copy, dissemination, reproduction, and publication in any medium, of knowledge products resulting from the Project.