

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**NEW INNOVATION FINANCING INSTRUMENTS
FOR THE STATE OF SÃO PAULO
(BR-L1566)**

**SECOND INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE
FOR INVESTMENT PROJECTS (CCLIP)
FOR THE "BRAZIL PLUS DIGITAL" PROGRAM
(BR-O0010)**

LOAN PROPOSAL

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2. Monitoring and evaluation plan
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3. Vertical logic of the program
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ABBREVIATIONS

CCLIP	Conditional Credit Line for Investment Projects
Desenvolve SP	<i>Agência de Fomento do Estado de São Paulo S.A.</i>
FAPESP	<i>Fundação de Amparo à Pesquisa do Estado de São Paulo</i> [São Paulo Research Foundation]
GDP	Gross domestic product
IC	Individual consultant
ICB	International competitive bidding
LIBOR	London Interbank Offered Rate
MSMEs	Micro, small, and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
PINTEC	<i>Pesquisa de Inovação</i> [Survey of Innovation]
PMU	Program management unit
QCBS	Quality- and cost-based selection
R&D	Research and development
RAIS	<i>Relatório Anual de Informações Sociais</i> [Annual Social Information Report]
SAIN	<i>Secretaria de Assuntos Internacionais</i> [Department of International Affairs]
SDE	<i>Secretaria de Desenvolvimento Econômico</i> [Economic Development Department]
SEBRAE	<i>Serviço Brasileiro de Apoio às Micro e Pequenas Empresas</i> [Brazilian Micro and Small Business Support Service]
SNI	<i>Sistema Nacional de Inovação</i> [National Innovation System]
SOFR	Secured Overnight Funding Rate
TFP	Total factor productivity

PROJECT SUMMARY

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SECOND INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE "BRAZIL PLUS DIGITAL" PROGRAM (BR-O0010)

Financial Terms and Conditions				
Borrower and executing agency:			Flexible Financing Facility ^(a)	
Agência de Fomento do Estado de São Paulo S.A. (Desenvolve SP)			Amortization period:	24.5 years
Guarantor:			Disbursement period:	5 years
Federative Republic of Brazil			Grace period:	6 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based ^(c)
IDB (Ordinary Capital):	195,000,000	62	Credit fee:	(d)
Parallel financing: ^(e)	120,213,000	38	Inspection and supervision fee:	(d)
			Weighted average life:	15.25 years
Total:	315,213,000	100	Approval currency:	United States dollar
Project at a Glance				
<p>Project objective/description: The general objective of this program is to increase productivity and access to private financing for innovation in micro, small, and medium-sized enterprises and ventures in the state of São Paulo. The specific objectives are: (i) to promote the growth of innovative enterprises in São Paulo by increasing financial leverage through new financial instruments; and (ii) to spur innovation among beneficiary MSMEs in São Paulo by improving credit conditions and stimulating private investment in innovation.</p> <p>This project is the second individual loan operation under the CCLIP for the "Brasil Mais Digital" [Brazil Plus Digital] program (BR-O0010), approved by the Board of Executive Directors in Resolution DE-23/21.</p>				
<p>Special contractual conditions precedent to the first disbursement of the loan proceeds: As special contractual conditions precedent to the first disbursement of the loan proceeds, the borrower will submit evidence of: (i) the approval and entry into effect of the program Operating Regulations, under the terms previously agreed upon with the Bank; and (ii) the creation of the program management unit and appointment of its members (paragraph 3.5).</p>				
<p>Exceptions to Bank policies: The Board of Executive Directors will be asked to approve a partial waiver of the Bank Policy on Guarantees Required from the Borrower (Operational Policy OP-303), to allow the Bank to require only the Federative Republic of Brazil's guarantee of the borrower's financial obligations and waive the requirement for the guarantee from the state of São Paulo regarding the borrower's affirmative covenants and potential local counterpart (paragraph 3.4).</p>				

Strategic Alignment			
Challenges: ^(f)	SI <input checked="" type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(g)	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

- (a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- (c) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank or at the borrower's request, pursuant to the provisions of the loan contract.
- (d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- (e) The São Paulo Research Foundation (FAPESP), the Brazilian Micro and Small Business Support Service (SEBRAE), and the Economic Development Department (SDE) will contribute the equivalent of up to US\$120,213,000 for the parallel financing of the program. The parallel financing resources will be executed directly by those agencies and will not be transferred to the borrower.
- (f) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (g) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 This project is the second individual loan operation of the conditional credit line for investment projects (CCLIP) for the "Brasil Mais Digital" [Brazil Plus Digital] program (BR-O0010) approved by the Board of Executive Directors on 7 April 2021.¹ The objective of the CCLIP, which uses multisector modality II under the Bank's CCLIP policy (document GN-2246-13), is to contribute to Brazil's digital transformation by: (i) enhancing digital connectivity (coverage and quality); (ii) increasing adoption of new technologies in the productive sector; (iii) enhancing public services through the implementation of new technologies; and (iv) improving the country's performance in necessary crosscutting factors for digital transformation. The liaison institution will be the Ministry of the Economy's Department of International Affairs (SAIN).
- 1.2 The CCLIP of up to US\$1 billion, to be allocated over a drawdown period of 10 years, has three resource allocation channels and is structured into four sectors. One channel is formed by the national or regional development banks that request financing for programs that contribute to Brazil's digital transformation and are aligned with one or more of the sectors covered by the CCLIP,² namely: (i) e-infrastructure; (ii) e-economy; (iii) e-government; and (iv) supporting factors. This is the first individual operation under the e-economy sector, as well as the first to be executed by a regional development bank.
- 1.3 **Macroeconomic context of Brazil and the COVID-19 pandemic.** The crisis caused by COVID-19 shrank Brazil's gross domestic product (GDP) by 4.10% in 2020, interrupting the nascent economic recovery process of 2017-2019 [1].³ In 2021, economic activity was recovering, with growth projected at 4.5% [2]. For 2022, market forecasts point to slower growth (GDP growth of 0.30%) [2]. However, the negative effects of the coronavirus pandemic have highlighted the structural barriers affecting the country's economic recovery, productivity, and long-term economic development. Prior to the COVID-19 crisis, Brazil's trends toward productivity,⁴ competitiveness,⁵ and greater productive structure complexity⁶ were slowing. The pandemic took a heavy toll on the economy, by interrupting

¹ Resolution DE-23/21.

² The other channels are: (i) federal (the Federative Republic of Brazil), for digital transformation programs in one or more of the sectors covered by the CCLIP; and (ii) subnational, with states, municipalities, or the Federal District acting as borrowers with borrowing capacity to increase the capillarity and scaling of financing through subloans to subnational entities or small and medium-sized enterprises for specific investments contributing to the country's digital transformation and aligned with one or more of the sectors covered by the CCLIP.

³ See [optional link 11](#).

⁴ Total factor productivity (TFP) growth has been stagnated since the 1980s and was -0.6% from 2014 to 2019 (Getulio Vargas Foundation, 2020).

⁵ From 2016 to 2020, the number of globally competitive industries fell from 196 to 167 in a universe of 1,000 industries (Cedeplar, 2021).

⁶ Brazil is ranked 53 of 133 countries on Harvard's Economic Complexity Index (2021), having fallen 9 places since 2016, due to increasing specialization in products with a low level of complexity and technological intensity <https://atlas.cid.harvard.edu/rankings>.

productive activities, disrupting value chains, and making it difficult to obtain financing, aggravating the already challenging economic situation and making it clear that the country needs a strong national innovation system (SNI)⁷ able to respond to an emergency like the pandemic as well as underpin the subsequent recovery.

- 1.4 **Productivity and innovation.** Innovation is fundamental to increasing productivity⁸ (OECD, 2010), and serves as an essential determinant of long-term growth by improving the ways capital and work are combined, and, therefore, increasing the yields obtained with the same level of factors of production (IDB, 2017).⁹ Approximately half of the disparity of income levels and growth rates between countries is due to differences in TFP [3], and considering the externalities, research and development (R&D) can explain up to 75% of the differences in TFP [4] growth rates.
- 1.5 Although there are many determinants of productivity¹⁰—like market operations, regulatory issues, the availability of human capital, digital transformation infrastructure, technical and technological capacities, institutional factors like State and governance failures, the scale of production and operational efficiency and availability of public goods—innovation is essential, because it makes it possible to streamline and to establish how productive companies are and to what extent resources are allocated to the most productive ones and/or activities. In fact, a study led by De Negri and Salerno (2005) shows that Brazilian companies that innovate are 30% more productive than ones that do not; this difference expands to 90% upon their introduction of new products to the market. Recent studies have shown that young innovative companies in business for less than five years significantly impact productivity and formal job creation by generating innovations and facilitating knowledge transfer [5].
- 1.6 Brazil's productivity, however, is facing challenges. From 2001 to 2013, TFP grew an average of 1.5%, slightly more than the OECD average (1.2%) but much less than the average for the BRICS countries, where labor productivity¹¹ rose 5.1% in the same period [6]. Furthermore, after the 2014-2016 recession, labor productivity

⁷ Network of institutions in the public and private sectors whose activities and interactions initiate, import, modify, and diffuse new technologies (Freeman, 1986).

⁸ Productivity reflects the capacity to produce more by improving the organization of the factors of production through new ideas, technological innovations, and new business models (OECD, 2015).

⁹ The European Commission European Competitiveness Report (2004) recognizes that at least 60% of the differences in per capita income among the European countries, and between them and the United States, result from work productivity.

¹⁰ Every year, the World Economic Forum ranks the world's nations based on the global competitiveness index, which measures the determinants of TFP in 12 pillars, classified into 4 sections: enabling environment for economic growth (institutions, infrastructure, information and communications technologies adoption, macroeconomic stability), human capital (health and skills), markets (product market, labor market, financial system, and market size), and innovation ecosystem (business dynamism and innovation capability).

¹¹ Labor productivity can also be understood as the average equilibrium wage. As the share of labor as an input to total production goes up, wages better reflect TFP. Data from the 2019 Annual Social Information Report (RAIS) suggest that average monthly wages in the state of São Paulo are R\$2,343, and are expected to grow 7%. See the first impact indicator in the results matrix.

shrank 1.3% per year, and despite the weak recovery in 2017-2019, it remained at approximately 25% of the level of the United States and below the levels of countries like Chile, Mexico, and Argentina.

- 1.7 In the state of São Paulo, due to its relative weight in the Brazilian economy as a whole, the productivity of the industrial sector determines the productivity of other sectors at the aggregate level. The labor productivity of the state of São Paulo's industrial sector was negative from 2007 to 2018, with an annual drop of -0.72%, compared with 0.04% growth in the rest of the country. Accordingly, São Paulo's industrial sector labor productivity advantage dropped from 30.7% in 2007 to 19.25% in 2018. The principal factors behind this productivity setback are the restrictive conditions on innovation financing (terms or interest rates) and difficult access (lack of collateral) for new companies and MSMEs, which need to use their own capital and reinvest profits to finance innovation and technology-adoption activities ([optional link 4](#)). This diagnostic assessment is consistent with the results of a study conducted by the Bank on the demand for financing for innovation in the state of São Paulo ([optional link 5](#)).
- 1.8 This context justifies the implementation of public policies designed to increase productivity and access to private financing for innovation in MSMEs and ventures in the state of São Paulo. This program will support initiatives with those ends.
- 1.9 **Context of Brazil's SNI.** Brazil's SNI is the result of an evolutionary process in which successive public policies have made it possible to build areas of excellence—notably, the scientific, technological, and productive capacities in the health sphere of the Oswaldo Cruz Foundation and the Butantan Institute, which have enabled local production of vaccines in response to the pandemic; and the progress on agricultural genetics made by the Brazilian Agricultural Research Organization. These achievements, however, have occurred in the context of the systematic worsening of aggregate innovation indicators. From 2011 to 2020, Brazil fell 15 positions on the Global Innovation Index [7], to rank 62 out of the 131 economies evaluated in 2020.¹²
- 1.10 **Investment in innovation.** Brazil invests more in R&D as a percentage of GDP than the other countries in Latin America, but still far less than developed countries (1.14% [8], below the OECD average of 2.48%). The country's investment in R&D, as a percentage of GDP, was down from 1.34% in 2015 [9]. Due to fiscal constraints, public investment, which provides 54% of the investment in R&D [10], has decreased, from 0.70% of GDP in 2015 to 0.61% in 2018. More specifically, federal public investment dropped from 0.48% to 0.37% of GDP in the same period [11]. Due to the withdrawal of public financing, the percentage of companies benefiting from a public incentive for innovation shrank from 39.3% in 2014 to 26.2% in 2017 [12].
- 1.11 Private investment in R&D as a percentage of GDP has not offset the drop in public investment but rather has also decreased [13], from 0.58% in 2014 to 0.47%

¹² For similar diagnostic assessments, see [optional link 11](#).

in 2017.¹³ In line with this trend, the percentage of innovative companies fell from 38% in 2008 to 33% in 2017 [14].

- 1.12 **Background and context of São Paulo.** The state of São Paulo, located in southeastern Brazil, is the country's most populated, with 46.3 million residents [15] in 645 municipalities and 12 development hubs.¹⁴ With 32% of the national GDP,¹⁵ it is Brazil's most developed economy, with a per capita GDP 50% higher than the national average.¹⁶ After growing an annual 3.9% from 2003 to 2013, the state's economy slowed down by an annual -1.3% from 2014 to 2018. However, it did grow 0.4% in 2020, proving to be more resilient to the COVID-19 pandemic than the rest of the country. That said, this growth is considered insufficient for sustainable economic recovery, even though forecasts indicate that in 2021 it will grow up to 7.8% [16].
- 1.13 **Innovation context in São Paulo.** The state of São Paulo has a strong network of science, technology, and innovation institutions. According to data from the São Paulo Research Foundation (FAPESP), 169 existing institutions are fundamental to the innovation ecosystem. Investment in the state by public research institutions reached a total of US\$123.22 million in 2018. In all, 31% of patent requests made in the country and 21% of registrations originate there. Furthermore, productive activities with high and medium-high levels of technological intensity provide 56% of the value added of the São Paulo industry and 28% of jobs [17]. The state of São Paulo has Brazil's highest economic complexity index for exports, but this index has fallen 21% since 2002,¹⁷ and despite its strengths, the state shares certain weaknesses with Brazil's SNI. These weaknesses have been exacerbated by the COVID-19 crisis,¹⁸ demonstrating the need to develop alternative financing sources to offset the increasing shortage of public financing for investment in private innovation and to improve the resilience of the productive sector.
- 1.14 **The profile of innovative companies.** Although the private share of R&D financing in the state of São Paulo is slightly higher than the national average (50% vs. 46%, respectively),¹⁹ it is less than in developed countries (70%). From 2008 to 2017, the state's weight in the country's total R&D investment went down in all industrial sectors, including the ones with high and medium-high technological

¹³ In absolute terms, private investment in R&D decreased from R\$41.2 billion (US\$8.2 billion equivalent) in 2014 to R\$32.6 billion (US\$6.5 billion equivalent) in 2017.

¹⁴ See [link](#).

¹⁵ The GDP of São Paulo places it among the largest 20 economies in the world. World Bank, 2020.

¹⁶ R\$45,542 versus R\$30,411 (Fundação Seade, 2019).

¹⁷ <http://dataviva.info/en/rankings/>.

¹⁸ All told, 95% of the smaller companies in the state of São Paulo were hard hit by the crisis, and 54% of them went out of business (SEBRAE, 2021).

¹⁹ Ministry of Science, Technology, and Innovation, 2021. Similarly, investment in innovation with external financing currently accounts for 4% of total financing. See second impact indicator in the results matrix.

- intensity. The number of innovative companies²⁰ fell 16% between 2008 and 2017, versus 9% in the country as a whole. Of a total of 33,267 industrial companies, only 30% introduced innovations to their products and/or processes, and of those, only 7% conduct internal R&D, 2.6% contract out R&D, and 3.3% acquire other types of knowledge [18]. The vast majority of the innovations introduced are new to the companies but not to the national and international markets²¹ (they are incremental innovations involving imitative changes to already existing products and processes, or low-impact organizational changes far from the technology frontier).
- 1.15 **Problem addressed.** This program addresses the general problem of recovering productivity growth through increased access to private financing for investment by innovative MSMEs and ventures in the state of São Paulo. The specific problems and determining factors are analyzed below.
- 1.16 **Early-stage innovation financing.** As the seat of 18 of Brazil's 20 unicorn companies²² and almost 3,000 startups [19], the state of São Paulo has Brazil's most active entrepreneurial ecosystem. However, because of a lack of financing, few companies manage to scale up their projects. Indeed, 61% of the state's innovative startups report that they have not been able to raise private investment capital or access bank financing [20]. Initial financing of new innovative companies is characterized by the issues of asymmetries of information, uncertainty, and low pledgeability of assets, which means that few investors are interested.
- 1.17 Financing for innovative entrepreneurship varies according to the stage of development: (i) seed capital to validate and structure the business plan; (ii) early investment funds for product development; and (iii) investment funds and banks for expansion [21]. During the pandemic, it became even more difficult to access financing for the first two stages, with a 20% reduction compared with 2019.²³ Moreover, the seed capital investments that were made focused on sectors that were favored by the pandemic,²⁴ few companies (60% of the capital invested went to only 10 companies) [22], and mature businesses, that is to say, not on the initial stages that carry higher levels of risk.
- 1.18 Revitalizing the early stages of the venture capital financing chain in the state of São Paulo is essential in order to make it possible for these companies to develop and grow.²⁵ Financial instruments designed to diversify the private risk of investing in

²⁰ Innovation is understood to mean a new or improved product or process (or combination thereof) that significantly differs from prior products and processes, and that has been made available to potential users (product) or launched (process). The innovation may be new to the firm only, new to the firm's market, or new to the world (Oslo Manual, 2018).

²¹ Only 4% of all companies develop genuinely new innovations in the national market.

²² Unicorns are companies or startups that reach a value of US\$1 billion during the growth stages.

²³ In 2020, seed capital investments accounted for US\$75 million of a total of US\$3.5 billion of investments in the ecosystem—a reversal to the level of investment last seen in 2016.

²⁴ Healthtech, fintechs, retailtechs, and real estate.

²⁵ The estimated average size of this type of company for 2021 is 3.3 employees per firm, with 80% growth expected as a program outcome. See outcome indicator 1.3 in the results matrix.

startups must be developed.²⁶ Fund-of-funds-type strategies may be used; in these investment schemes, the public sector finances private funds at an early stage, and these private funds in turn co-invest in the startups. Shareholding (equity²⁷ or crowd equity²⁸) and venture debt²⁹ can be used as financial instruments for channeling the investment of the private funds into the companies. Desenvolve SP has funded various venture capital funds managed by private partners.³⁰

- 1.19 **Innovation financing for established companies.** Investment in innovation is different from other types of investment in the sense that project development times are longer, more uncertain, and higher risk; it involves high levels of intangible components (R&D, design, know-how), and an indivisible sunk cost (the project's fixed costs do not depend on the size of the market, and if it is unsuccessful the outcomes cannot be easily transferred to other sectors). Furthermore, the typical novelty of innovation projects and appropriability issues make the information asymmetries between the innovator and the external financier even more marked, exacerbating the problem of access to financing.
- 1.20 Established companies in the state of São Paulo also face challenges to accessing external resources for financing innovation activities. The companies that reported that they did not invest in innovation, despite having tried to do so, indicate that the three main obstacles were the excessive risk of innovation (62%), the high cost (58%), and the lack of financing sources (40%). These financial issues are cited much more often than others that affect project quality, such as the lack of qualified personnel (24%), the regulatory framework (21%), or difficulty cooperating with other SNI actors (18%). Notably, the companies that did manage to invest in innovation likewise reported that the main obstacles were associated with the excessive risk of innovation (60%), the high cost (40%), and the lack of financing sources (40%). As a result, 87% of the companies in the state of São Paulo rely on their own internal resources for innovation and have limited or no access to external sources of financing [23].
- 1.21 **Innovation and gender.** Empirical evidence shows that women entrepreneurs have fewer opportunities in normal times and that they have been especially affected by the pandemic, which has forced them to close 1.3 million enterprises—a sign of the sector's structural weaknesses and historical vulnerabilities. All told, 7 out of every 10 adult entrepreneurs who exited the market in 2020 were women [24]. The numbers regarding opportunities for women-led startups and the evolution thereof are not encouraging either: in 2020, only 4.7% of all digital startups were founded by women [25]. This statistic reveals the extremely low level

²⁶ The problem is not a lack of opportunity. Recent estimates show that there is demand for early-stage investment in the state of São Paulo ecosystem, for up to R\$12 billion annually. That is to say, 12 times current investment (Anjos do Brasil, 2021). See [optional link 5](#).

²⁷ External leverage of ventures with equity instruments is currently 76%. See results matrix indicator 1.1.

²⁸ Crowd equity is the online offering, to a group of investors, of shares in private companies with annual revenues of up to R\$10 million. [Instrução CVM 588 de 13 de julho de 2017](#).

²⁹ At present, external leverage in enterprises with venture debt instruments is virtually nonexistent. See outcome indicator 1.2 in the results matrix.

³⁰ São Paulo Innovation Fund, Aerospace Fund, BBI Financial I, and CRP Empreendedor Fund.

of representation of women as well as the lack of diversity and shortage of opportunities within the robust innovation ecosystem formed by 363 incubators and 57 accelerators [26]. The main challenges facing women entrepreneurs are access to bank loans and private capital to finance innovation. In 2020, they received only 0.04% of the over US\$3.5 billion in investment resources provided for that market,³¹ which limited their business growth capacities and slowed the pace of market expansion.

- 1.22 **Financing for MSME adoption of digital transformation.** Digital tools have been key to handling the disruptions caused by the pandemic as well as changing consumer habits.³² However, the companies, and especially MSMEs, in the state of São Paulo face access and financing conditions that prevent them from adopting such technologies. Consequently, smaller companies are essentially excluded from the effective use of advanced digital technologies like big data analysis, artificial intelligence, machine learning, and the Internet of things. In fact, 52% do not use a single digital technology [27]. Only a small group of companies adopt of technologies like additive manufacturing and collaborative robots³³ and smart management systems (13% and 9% of all companies, respectively) [28]. In all, 65% of companies cite the high cost as a significant barrier to digital transformation [28], and 38% are affected by the lack of financing for digital transformation [29].
- 1.23 **State failures.** Over time, the state of São Paulo has deployed a set of policy instruments that did spur learning but have had limited effects, with problems in scope (they reach few companies)³⁴ and design (for example, they do not account for interactions among market failures by providing a mixture of instruments that includes loans and guarantees). Although several initiatives offer various instruments in support of business innovation, they are uncoordinated, serve different audiences without a logic for linkages, and take far too long for analysis and processing. Furthermore, all of the support offered is based on the company formulating and submitting an innovation project, which assumes it has the internal capacities to do so. Although large companies usually have a specialized innovation unit, MSMEs typically do not, and their innovations result from informal, small-scale processes. As a result of the lack of interagency coordination, even though the state of São Paulo is responsible for 38% of the country's R&D activities and 49% of its private R&D, only 16% of innovative companies state that they have benefited from public financing programs³⁵ (placing the state 8th of 15 states evaluated).

³¹ Notably, 72% of women entrepreneurs indicated that they had been psychologically harassed because of their gender during investment interviews. They were asked, for example, if they were or planned to become mothers, the ages of their children, if there were men in their companies, or if they would be able to manage the business on their own.

³² Countries that increased their investments in digital transformation during the pandemic posted higher profits and have more jobs and better growth outlooks (National Confederation of Industry). 2020.

³³ In 2018, Brazil had 6,000 industrial robots, compared with over 100,000 in Germany, the United States, Japan, and South Korea. International Federation of Robotics, 2019.

³⁴ The true loan disbursement time is 16 weeks. See outcome indicator 2.1 in the results matrix.

³⁵ This results in low levels of internal private investment in innovation as a percentage of sales (2%) and low new product introduction rates (33%). See outcome indicators 2.2 and 2.3 in the results matrix.

- 1.24 **Productivity and digital transformation.** According to the OECD (2019), although digital transformation does not appear in aggregate productivity data, it is having positive impacts on companies and sectors closer to the technology frontier. While MSMEs in sectors that are less technology- and knowledge-intensive increased their productivity only 0.6% between 2001 and 2013, companies on the technology frontier posted a 2.8% productivity increase in that same period, confirming that more productive companies benefit more from the digital transformation than less productive ones do.
- 1.25 For MSMEs to take part in the digital transformation and increase their productivity, the challenge is to overcome their difficulties in accessing financing, guarantee instruments, and specific financing sources for technology adoption, to allow them to procure tangible and intangible goods to tap emerging market segments [30] and achieve higher levels of productivity [31].
- 1.26 **Desenvolve SP.** Desenvolve SP, also known as “the entrepreneur’s bank,” is affiliated with the state of São Paulo Department of the Treasury and Government Planning. Its mission is to promote the economic development of the state of São Paulo by supporting implementation of proactive public policies that promote economic development and increase the competitiveness of São Paulo companies. Established just over 12 years ago,³⁶ the institution provides financing lines focused on fixed and working capital, administers development funds like the equity investment funds to support the growth of startups, and offers securities and guarantee funds.
- 1.27 With this program, Desenvolve SP has the opportunity to build capacities for designing new innovation financing instruments that will foster increased productivity and provide young and innovative as well as established companies with better access to private financing for innovation and technology adoption. Due to their cumulative effects, the new instruments are not only key to the state of São Paulo’s economic recovery, but they will also enable greater and more dynamic job growth,³⁷ leverage of private resources, and increased revenue and more product and process innovations for the beneficiary companies.
- 1.28 **Bank experience in the country.** The Bank has extensive experience in providing support for strengthening competitiveness and innovation and for emerging sectors in Brazil (including the state of São Paulo), and in designing sovereign guaranteed loan programs to improve MSME access to financing through public development banks. On some occasions, this has involved series of projects, such as the: Innovation for Growth Program ([4358/OC-BR](#), 2017); Program to Boost the Competitiveness of Businesses in Local Production Systems in the State of São Paulo ([1911/OC-BR](#), 2007); Innovation Production and Dissemination Program for Local Cluster Competitiveness in the State of Pernambuco ([2147/OC-BR](#), 2009); Cluster Competitiveness Support Program for Minas Gerais ([2117/OC-BR](#), 2009); and Global Credit Program for Safeguarding the Productive

³⁶ Establishment authorized by state law in 2001, regulated by decree in 2007, and launch of activities in 2009.

³⁷ For non-startup MSMEs, the current employment per company of 55.2 workers is expected to rise 11% as a program outcome. See outcome indicator 2.4 in the results matrix.

Fabric and Employment in the State of Espírito Santo ([5138/OC-BR](#), 2020). Further, the Bank has a comprehensive body of analytic work on the issues involved in the operation [32]. The design of the program has incorporated the lessons learned associated with the need to: strengthen financing sources for innovative projects in companies' various stages of development; increase business investments in MSME innovation and technology adoption; strengthen institutional capacities for the design, implementation, and monitoring of innovation programs; and consolidate institutional coordination among the various stakeholders in the ecosystem. From the technical cooperation operations implemented in the country,³⁸ the Bank has learned the value of competitive dialogue mechanisms, especially for strengthening innovation systems associated with emerging societal challenges.

- 1.29 **Bank experience in the sector and lessons learned.** The Bank has implemented a variety of programs in support of improving competitiveness, innovation, and digital transformation for companies in the region. The design of this operation incorporates lessons from the Bank's experiences in such programs as: General Technological Innovation Program ([AR-X1015](#)); CCLIP to Promote Innovation, Entrepreneurship, Human Capital, and Research ([UR-O1153](#)); and Innovation for Growth Program ([4358/OC-BR](#)). The following stand out among the lessons learned from Bank operations incorporated into the design of this program: (i) nonreimbursable contributions correct market failures, especially when projects are collaborative and/or high risk; (ii) credit increases investment in innovation provided that complementary assets are present; and (iii) technology extension closes production gaps in MSMEs.
- 1.30 **Collaboration with the IDB Group.** This operation was constructed cooperatively and builds on IDB Lab's various years of experience in strengthening venture capital and businesses with a socioenvironmental impact. Specifically, it takes into account the lessons learned from the following IDB Lab operations currently being executed in Brazil: *BID ao Cubo*: Internationalization and Integration of the Brazilian Innovation Ecosystem (ATN/ME-17066-BR); Open Innovation for the Health Sector in the Fight against COVID-19 ([ATN/ME-18146-BR](#)); and Promotion of the Socioenvironmental Impact Investment and Enterprise Ecosystem ([ATN/ME-15757-BR](#)). Of particular note among the lessons incorporated into this program are the importance of institutional coordination to strengthen strategic actors like the São Paulo Research Foundation (FAPESP), the Brazilian Micro and Small Business Support Service (SEBRAE), and the Economic Development Department (SDE), the exchange of good practices to scale up innovative businesses through public-private dialogues to be held throughout program preparation (over 15 technical meetings), and the importance of connecting supply and demand in high-impact technological solutions, as learned in the IdeiaGov program, as well as the need to close gender gaps in access to financing.

³⁸ Exploring the Potential of Technology-based Entrepreneurship through Open Innovation ([ATN/OC-17826-BR](#)); Digital Transformation for Innovation ([ATN/OC-16539-BR](#)); and Support for Establishing the University-Led International Hub for Sustainable Development ([ATN/KK-17838-BR](#)).

- 1.31 **Bank nonfinancial additionality in this operation.** The Bank contributes experience and knowledge with regard to the following aspects: good practices in structuring instruments to support and finance innovation and technology adoption, and technical support for strengthening Desenvolve SP's institutional capacity. In addition, due to the systemic, structural nature of the challenges posed, this program provides for the institutional arrangements necessary for FAPESP, SEBRAE, Desenvolve SP, and the SDE to coordinate, for the first time, their efforts, align incentives, and improve the coordination and complementarity of business innovation support instruments³⁹ at all stages of the innovation project cycle to increase efficiency and effectiveness in managing resources, create areas for learning, and help decrease risks within the ecosystem.⁴⁰ For example, projects that have moved through the entire cycle of support provided by FAPESP, SEBRAE, and the SDE will be able to receive rapid financing from Desenvolve SP for the launch or market expansion stages.⁴¹ A menu of financing options will be provided, making it possible for the beneficiaries to procure not only machinery and equipment, but also the necessary complementary intangible assets for innovation and digital transformation (especially technical assistance, certifications, and evaluations).
- 1.32 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy 2020-2023 (document AB-3190-2) and is strategically aligned with the challenge of productivity and innovation, by financing mechanisms to stimulate investment in business innovation. It is also aligned with the crosscutting themes of: (i) institutional capacity and the rule of law, by modernizing Desenvolve SP's technology platforms and strengthening its capacities for the design and implementation of new innovation financing instruments (paragraphs 1.40 and 1.31); (ii) gender equality, by expanding business innovation financing opportunities to women entrepreneurs (paragraph 1.35 and [optional link 9](#)); and (iii) climate change, since, according to the [joint methodology of the multilateral development banks](#), an estimated 6.22% of the IDB's resources are being invested in support for companies financed with fast-disbursing loans for innovation and technology adoption geared towards environmental sustainability and climate change. These resources will contribute to the IDB Group target of increasing financing for climate-related projects to 30% of annual approvals, by financing the design and implementation of fast-disbursing credit lines for innovation and technology adoption aimed at industry 4.0, environmental sustainability, and climate change ([optional link 10](#)). Furthermore, the program will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) micro, small, medium enterprises financed; (ii) enterprises provided with technical assistance; (iii) women beneficiaries of economic empowerment initiatives; and (iv) agencies with strengthened digital technology and managerial capacity. The program is also consistent with the

³⁹ See [optional link 6](#).

⁴⁰ See [optional link 7](#).

⁴¹ The resources contributed by the parallel financing will not affect the activities or the results matrix for the program. Accordingly, execution will not be affected by these resources. See note (e) in the Project Summary.

Innovation, Science, and Technology Sector Framework Document (GN-2791-8), by promoting better policies to foster business innovation; and it is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2), with regard to strengthening institutional capacities for innovation, and with the Gender and Diversity Sector Framework Document (GN-2800-8), in the dimension of promoting gender equality and the empowerment of women and girls, as well as with the Update to the Gender Action Plan for Operations 2021 (GN-2531-19) in the strategic lines of promoting initiatives to include women in the digital economy, by preparing them to access digital entrepreneurship opportunities and correct venture capital gender biases, and promoting gender diversity as a source of innovation and productivity growth. The program is aligned with the Vision 2025, especially with the pillars of e-economy and support for small and medium-sized enterprises. It is also aligned with the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973), under the priority area of improving the business climate and narrowing gaps in sustainable infrastructure for enhanced competitiveness, and the strategic objective of increasing the role of the private sector by improving the quality of the business environment, as an expected outcome of the increased private investment in R&D. Lastly, the operation is included as part of the Update of the Annex III of the 2021 Operational Program Report (GN-3034-2) and the 2022 Indicative Pipeline.

- 1.33 **Agenda 2030 for sustainable development.** This program is aligned with the United Nations 2030 Agenda, insofar as innovation is essential for achieving the Sustainable Development Goals.⁴² The program is linked to the goals of increasing access to private financing for innovative companies to invest in innovation and strengthening technological capacities to produce innovative, scalable solutions to respond to global challenges like environmental sustainability and social inclusion. The program will also help implement the 2030 Agenda in the state of São Paulo [33] and in Desenvolve SP [34].

B. Objectives, components, and cost

- 1.34 **Objective of the second individual operation under the CCLIP.** The general objective of this program is to increase productivity and access to private financing for innovation in micro, small, and medium-sized enterprises (MSMEs) and ventures in the state of São Paulo. The specific objectives are: (i) to promote the growth of innovative enterprises in São Paulo by increasing financial leverage through new financial instruments; and (ii) to spur innovation among beneficiary MSMEs in São Paulo by improving credit conditions and stimulating private investment in innovation.
- 1.35 **Component 1. Smart financing for innovative enterprises (US\$40,000,000).** This component aims to increase private investment in innovative enterprises through the development and implementation of new financing instruments. These new instruments are expected to strengthen the investor base in early stages, diversify financing towards sectors that contribute to the 2030 Agenda, and

⁴² Brazil is currently among the countries farthest from implementing the Sustainable Development Goals. It has not made satisfactory progress on any of the 169 targets, of which 54.4% have suffered setbacks, 16% are stagnated, 12.4% are at risk, and 7.7% show insufficient progress. [Spotlight Report, 2020](#).

leverage public and private resources to share risks through co-investment in funds and other financial vehicles already on the market or in the structuring and fundraising stages, together with angel investor networks, private pre-seed and seed capital, venture capital, and crowd equity funding. The target is investment in 430 companies with equity instruments and in 1,360 companies with venture debt instruments. Innovative enterprises will be selected competitively in accordance with Desenvolve SP's internal rules and policies. In line with the institution's transparency, the corresponding information will be made available through its official channels.⁴³

The component will finance the:

- (i) design and implementation of equity funds for innovative enterprises;
- (ii) design and implementation of a pilot to provide support for women entrepreneur company leaders through equity funds;
- (iii) design and implementation of new debt instruments for innovative enterprises.

- 1.36 The innovative enterprises to benefit from equity instruments will be startups with annual revenues as provided in [Supplemental Law 182/2021](#), as amended. The maximum investment amount for projects financed with equity funds will be US\$2 million.⁴⁴ The technical selection criteria are specified in the program [Operating Regulations](#) and include: (i) profile of the lead entrepreneur and team; (ii) scaleup potential; (iii) degree of innovation; (iv) size and growth of the target market; and (v) social and environmental impact.
- 1.37 The innovative enterprises to benefit from the venture debt instruments will be startups and businesses with a social and environmental impact with annual sales as provided in [Supplemental Law 182/2021](#), as amended. The maximum investment amount for projects financed with debt instruments will not exceed US\$2 million.⁴⁵ The companies to receive venture debt instrument financing will be selected based on criteria typical for this sector, including: (i) project scaleup potential; (ii) degree of innovation; (iii) size and potential growth of the target market; (iv) social and environmental impact; (v) robustness of the business model; and (vi) payment capacity based on the future income potential. See program [Operating Regulations](#).
- 1.38 **Component 2. Financing for innovation in established MSMEs (US\$149,300,000).** This component seeks to increase private investment in MSMEs in the state of São Paulo, for innovation and technology adoption. It is expected to be able to finance up to 1,620 companies with loans for innovation and technology adoption, over five years. Furthermore, guarantee coverage processes will be conducted (e.g. contributions to guarantee funds) to guarantee

⁴³ [Public Information Service and Transparency Portal](#).

⁴⁴ In exceptional cases, the executing agency could support investments for a higher amount with the Bank's prior no objection.

⁴⁵ In exceptional cases, the executing agency could support investments for a higher amount with the Bank's prior no objection.

approximately 1,400 operations for innovation and technology adoption. Selection of the beneficiary MSMEs will be based on an open window in accordance with Desenvolve SP's internal rules and policies. In line with the institution's transparency, the corresponding information will be made available through its official channels.⁴⁶ This component will support the following and other activities:

- (i) design and implementation of fast-disbursing credit lines for innovation and technology adoption;
- (ii) design and implementation of fast-disbursing credit lines for industry 4.0 technologies;
- (iii) design and implementation of fast-disbursing credit lines for environmental sustainability and climate change;
- (iv) design and implementation of guarantee funds for innovation and technology adoption. See program [Operating Regulations](#).

1.39 The eligibility criteria for companies to receive financing under this component are described in the program Operating Regulations. MSMEs in the state of São Paulo with annual sales of up to US\$60 million will be eligible, as per the Desenvolve SP operational policy. The innovation and technology adoption projects will not exceed the maximum amount of US\$1,000,000.⁴⁷ The beneficiary companies may use the component resources to finance tangible and intangible expenses necessary for the innovation, which may include: (i) R&D; (ii) advisory services and technical-scientific assistance; and (iii) proof of concept demonstration and simulation. See program [Operating Regulations](#).

1.40 **Program administration, monitoring, and evaluation (US\$5,700,000).** Financing will be provided for the program's administrative, evaluation, study, and auditing expenses, as well as for, inter alia, activities associated with: (i) the integration of information systems and technological platforms, and staff training; and (ii) the implementation of an innovation laboratory to test new financial instruments for entrepreneurship and innovation. See program [Operating Regulations](#).

1.41 **Associated technical cooperation operation.** The Bank approved the nonreimbursable technical cooperation operation [ATN/OC-18722-BR](#) in July 2021 for up to US\$350,000, with the objective of supporting the design and execution of this operation, including implementation of risk mitigation measures identified during the design stage, such as the contracting of venture capital consulting services and of specialized consulting services to provide training, education, and support for the new business innovation instruments, for new and existing companies in the state of São Paulo.

1.42 **Beneficiaries.** This operation is expected to benefit the general population of the state of São Paulo, by supporting investment in innovations that will improve

⁴⁶ [Public Information Service and Transparency Portal](#).

⁴⁷ In exceptional cases, the executing agency could support subloans for a higher amount with the Bank's prior no objection.

quality of life in various areas. Specifically, it will directly benefit 3,410 formal innovative companies in the state of São Paulo that use the new financing instruments supported by the program. The program proceeds will also make it possible to issue 1,400 guarantees for innovation and technology adoption in companies in the state of São Paulo, and to design and implement a pilot to support women entrepreneur company leaders at early stages, through equity funds.

C. Key results indicators

- 1.43 Achievement of the general development objective will be evaluated based on the following two indicators: (i) increase in the monthly wages of workers at the companies participating in the program compared with the monthly wages of workers at nonparticipating companies; and (ii) external business financing for innovation activities. The first specific objective will be evaluated through: (i) external leverage in enterprises benefiting from the equity instrument; (ii) external leverage in enterprises benefiting from the venture debt instrument; and (iii) number of employees of the enterprises participating in the program compared with the number of employees of the comparable nonparticipating enterprises. The second specific objective will be evaluated through: (i) disbursement time; (ii) internal private investment in innovation and technology adoption over sales; (iii) companies that introduce innovations; and (iv) number of employees of enterprises participating in the program compared with the number of employees of comparable nonparticipating enterprises.
- 1.44 **Economic analysis.** A [cost-benefit evaluation](#) was performed of the program, both as a whole and by component, with a time horizon of 11 years. This evaluation shows that the program has a positive net present value of US\$128.2 million and an internal rate of return of 26%, higher than the annual discount rate used by the IDB of 12%. In addition, the sensitivity analysis shows that the program's net present value is robust under variations in key parameters like increased employment and wages due to the companies' higher productivity, the impact on the number of employees, external leveraging due to the new financing instruments, etc.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 The program will be structured through an investment loan under the global credit modality for up to US\$195 million, from the Bank's Ordinary Capital under the Flexible Financing Facility.⁴⁸ This instrument was chosen due to the planned financial intermediation activities to benefit the ventures and MSMEs in the state of São Paulo.

⁴⁸ The São Paulo Research Foundation (FAPESP), the Brazilian Micro and Small Business Support Service (SEBRAE), and the Economic Development Department (SDE) will contribute the equivalent of up to US\$120,213,000 for the parallel financing of the program. The parallel financing resources will be executed directly by those agencies and will not be transferred to the borrower (see [optional link 7](#)).

Table 1. Estimated program costs (US\$)*

Components	Bank	%
Component 1. Smart financing for innovative enterprises	40,000,000.00	20.5
1.1 Equity instruments for the 2030 Agenda	18,000,000.00	9.2
1.2 Pilot to support women entrepreneur company leaders at early stages with equity funds	2,000,000.00	1.0
1.3 Debt/blended finance instruments for the 2030 Agenda	20,000,000.00	10.3
Component 2. Financing for innovation in established MSMEs	149,300,000.00	76.6
2.1 Design of fast-disbursing instruments for innovation and technology adoption	103,516,563.00	53.1
2.2 Innovation and technology adoption in industry 4.0	9,153,800.00	4.7
2.3 Innovation and technology adoption for environmental sustainability and climate change	12,083,200.00	6.2
2.4 Guarantees for innovation and technology adoption	24,546,437.00	12.6
Program administration, monitoring, and evaluation	5,700,000.00	2.9
Administration, monitoring, evaluation, and audits	700,000.00	0.3
Integration of information systems and technological platforms, staff training, and testing of new financial instruments	5,000,000.00	2.6
Total amount	195,000,000.00	100.0

* Estimated costs are indicative.

- 2.2 Funds will be disbursed over a five-year period as set forth in Table 2. The execution period was defined based on the average amount of time needed to design and implement the proposed activities.

Table 2. Disbursement schedule (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	8.45	27.8	42.5	58.8	57.5	195.0
% per year	4.3	14.2	21.8	30.2	29.4	100.0

B. Environmental and social safeguard risks

- 2.3 In accordance with Directive B.13 of the IDB Environment and Safeguards Compliance Policy (operational policy OP-703), this financial intermediation operation may not be classified ex ante. According to the results of the environmental and social risk assessment, as well as the applicable regulatory framework and the executing agency's capacity to manage those risks, and given the low risk profile of the eligible loans with project proceeds, which will not fund projects or activities in higher-risk sectors or projects that require new civil works or the procurement of new land, this operation is considered to be a low-risk financial intermediation (FI-3).
- 2.4 Due to the operation's size, and because it will only provide support for innovative enterprises, the eligible loans comply with socioenvironmental category "C" under the aforementioned policy. Category "A" and "B" loans will not be eligible for funding. The financial intermediation classification takes into account the maximum amount per loan (US\$1 million) as well as the multisector character of the portfolio expected to be financed and the fact that this will be the first time that Desenvolve SP executes a Bank operation. The requirements for managing and

mitigating potential environmental and social impacts will inform an environmental and social risks management system that will be incorporated into the program [Operating Regulations](#). Approval of the environmental and social risks management system is a condition precedent to the first disbursement ([environmental and social management report](#)).

C. Fiduciary risks

- 2.5 The program carries a medium-high level of risk with regard to the executing agency's human resources, since the Desenvolve SP personnel do not have experience using the Bank's fiduciary policies. This could delay timely execution of the program. This risk will be mitigated by including, in the program [Operating Regulations](#), execution arrangements detailing the PMU structure, powers and duties, and the qualifications of the staff assigned to and trained for the program.

D. Other key issues and risks

- 2.6 The executing agency's systems present a high level of risk, since they will not be able to handle the new tasks associated with the loan proceeds and financing processes are still executed manually, all of which may lead to delays in project implementation and recording errors. This will be mitigated by commissioning back-end systems and improving the internal processes, as well as by improving the website and the front end to improve the user interface (paragraphs 1.40 and 1.41). Two other medium-high level risks were identified. The executing agency's human resources appear to lack specialized technical knowledge for operating the new financing instruments that will be used in Component 1, which could cause those instruments to be underused due to a lack of demand or to the complexity of the products and solutions developed. This risk will be mitigated by hiring specialized consulting services to provide training on and support for implementing the new instruments (paragraphs 1.40 and 1.41). The other risk is the economic-financial environment: if the pandemic's effects continue to impact MSMEs' investment expectations, companies may be less willing to invest, decreasing demand for funds from Desenvolve SP and thereby impacting the overall use of program proceeds. This risk will be mitigated through interagency coordination among Desenvolve SP, the participating institutions, agencies representing the private sector, and the venture capital industry (paragraph 3.3).
- 2.7 **Program sustainability.** With regard to the sustainability commitments after the operation is completed, in the past few years, Desenvolve SP has had fiscal resource flows that will allow it to maintain successful execution of its programs and policies, as demonstrated by internal and external audits (including the Central Bank). The program interventions mostly involve reimbursable financing. Furthermore, also in the past few years, Desenvolve SP has had resource flows from the Brazilian Development Bank (BNDES), the Financiadora de Estudos e Projetos [Funding Authority for Studies and Projects], and other multilateral organizations like the Development Bank of Latin America and the International Finance Corporation. Moreover, the other institutions associated with the program

(FAPESP, SEBRAE, and the SDE) have solid track records in fostering innovation in the state of São Paulo.⁴⁹

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** Desenvolve SP will be the borrower and executing agency, and the Federative Republic of Brazil will be the guarantor of the borrower's financial obligations.⁵⁰ The results of the institutional capacity analysis indicate that Desenvolve SP has the technical and financial capacity to manage the actions to be taken under the operation.⁵¹ Taking into account that this will be the executing agency's first operation with the Bank, above all it will need to strengthen its capacities for: (i) project management, including monitoring and evaluation; (ii) governance and institutional coordination to maximize the impact of its interventions; and (iii) financial management according to Bank policies. To that end: (i) a PMU will be established within the Desenvolve SP structure, to include career employees; (ii) the PMU team will be trained on Bank financial management and procurement procedures and policies; and (iii) Desenvolve SP will be supported by specialized technicians for the design, implementation, monitoring, and evaluation of innovation instruments.
- 3.2 **Program execution and coordination.** Desenvolve SP will have fiduciary responsibility for program proceeds and will, through the PMU, manage the program and ensure proper compliance with the loan contract and program [Operating Regulations](#). At a minimum, the PMU will have: (i) a general program coordinator; (ii) a fiduciary and audit specialist; (iii) an innovation instruments specialist; and (iv) an evaluation and monitoring specialist. The PMU will be administratively linked to the Desenvolve SP presidency and will act in coordination with other Desenvolve SP departments, in accordance with their areas of responsibility.
- 3.3 **Program Operating Regulations.** Program execution will be governed by the provisions of the loan contract, as well as the program [Operating Regulations](#), which, in addition to explaining operation execution in detail, will include, at a minimum: (i) the program's organizational arrangements; (ii) the functions of the PMU and details of its powers and duties; (iii) the specific procedures, conditions, and requirements of the use of the funds and the financial management of the program; (iv) selection criteria and eligibility conditions for each instrument and for the beneficiary companies; (v) programming, monitoring, and evaluation; (vi) audit and procurement aspects; (vii) environmental and social aspects; and (viii) the mechanisms for the effective inclusion of the clauses on Bank-prohibited practices.

⁴⁹ See [optional link 7](#).

⁵⁰ See [Resolution 12](#) of 29 April 2021 of the External Financing Committee, authorizing preparation of the operation.

⁵¹ All told, 55 conditions were analyzed on the institutional capacity analysis platform: 26 were identified as strengths, 15 as areas of opportunity for improvement, 12 as weaknesses to be strengthened, and 2 as not applicable.

- 3.4 **Partial waiver of the Bank's Policy on Guarantees Required from the Borrower (OP-303).** The Board of Executive Directors will be asked to approve a partial waiver of the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303), to allow the Bank to require only the Federative Republic of Brazil's guarantee of the borrower's financial obligations (payment of principal, interest, and other lending fees) and to waive the requirement for the guarantee from the state of São Paulo regarding the borrower's affirmative covenants. This request is justified because there is no express legal stipulation in the local legislation that would allow the state of São Paulo to grant a guarantee to cover the affirmative covenants associated with program execution. Notably, the borrower is a solvent entity with broad financial capacity with regard to the obligations it will take on to the Bank. Desenvolve SP has legal personality and authority enabling it to execute the planned program activities, as well as its own equity and administrative, technical, and financial autonomy. Furthermore, it has successfully executed public funding resources from second-tier public development banks in Brazil like the Brazilian Development Bank (BNDES) and the Funding Authority for Studies and Projects (both of which have been borrowers and executing agencies for IDB programs) and multilateral organizations (Development Bank of Latin America and the International Finance Corporation). See [optional link 12](#).
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan proceeds.** As special contractual conditions precedent to the first disbursement of the loan proceeds, the borrower will submit evidence of: (i) the approval and entry into effect of the program [Operating Regulations](#), under the terms previously agreed upon with the Bank; and (ii) the creation of the program management unit and appointment of its members. The first condition is necessary to ensure proper program execution, considering that the Bank's experience in the region shows that approval of the Operating Regulations prior to the first disbursement facilitates the executing agency's internal organization for successful implementation of the operation. The second condition is essential to assure the Bank that the executing agency has the appropriate team in place to start program execution.
- 3.6 **Procurement and contracting.** Procurement processes financed with loan proceeds will be carried out in line with Bank policies (document GN-2349-15, Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank, and document GN-2350-15, Policies for the Selection and Contracting of Consultants Financed by the IDB).
- 3.7 **Retroactive financing.** The Bank may retroactively finance up to US\$39 million (20% of the proposed loan amount) in eligible expenditures made by the borrower prior to the loan approval date, to contract consulting services or procure goods, provided that requirements substantially similar to those established in the loan contract have been satisfied. These expenditures must have been incurred no earlier than the project profile approval date (7 July 2021), and under no circumstances may they include expenditures incurred more than 18 months before the loan approval date. Desenvolve SP foresees actions associated with the design of the Component 1 and 2 instruments, as well as the procurement of systems and studies.

- 3.8 **Disbursements.** The IDB will disburse the program funds through the advance payment modality as established in the “Financial Management Guidelines for IDB-financed Projects” (document OP-273-12), or in the IDB policies in force. For advances subsequent to the first, the executing agency will provide substantiating documentation for at least 80% of all previously disbursed funds not yet substantiated. The executing agency will administer the loan proceeds through an exclusive bank account set up to receive and manage program resources.
- 3.9 **Financial statements and auditing.** The executing agency will submit the program’s annual audited financial statements, in accordance with the terms of reference agreed upon with the IDB, within 120 days after the close of each fiscal year. The final report will be presented within 120 days after the date of the final disbursement or any extensions. The financial reports will be audited by an independent audit firm eligible for the IDB, according to the procedures established in the auditing guidelines in effect.

B. Summary of arrangements for monitoring results

- 3.10 **Monitoring.** Program execution will be monitored through the executing agency’s semiannual progress reports submitted to the IDB within the 60 days following the end of each six-month period, as well as a final report to be submitted up to six months after the last loan disbursement. The reports will reference the information commitments set forth in the results matrix, as well as compliance with the eligibility criteria established in the program [Operating Regulations](#). These reports will be reflected in the progress monitoring reports.
- 3.11 **Evaluation.** The project will be evaluated in accordance with the annual targets and indicators for the outcomes and outputs set forth in the project results matrix. The program [Operating Regulations](#) and [monitoring and evaluation plan](#) call for independent midterm and final evaluations. If the Bank deems necessary, the borrower will prepare and deliver a midterm evaluation report to the Bank within 90 days after the date on which 50% of the loan proceeds have been disbursed, or 36 months into program execution, whichever occurs first. It will also deliver a final evaluation report to the Bank as an input for the project completion report, within 90 days after the date on which 90% of the loan proceeds have been disbursed. The final evaluation will include an impact assessment that will use various identification strategies and evaluation methodologies, based on the characteristics of the indicators and the available sources of information. These may include nonexperimental methods and reflexive evaluations to measure program effectiveness on the wage productivity of the companies participating in the program, the increase in external business financing for innovation activities, etc.

IV. ELIGIBILITY CRITERIA

- 4.1 This project is the second individual loan operation under the CCLIP for the “Brasil Mais Digital” [Brazil Plus Digital] program ([BR-O0010](#)), approved by the Board of Executive Directors on 7 April 2021, and it is the first individual operation in the e-economy sector under the CCLIP and the first with Desenvolve SP as executing agency. As such, it meets all of the eligibility requirements set forth in the applicable Bank policy (document GN-2246-13) and corresponding operational guidelines (document OP-1622-3). With regard to the CCLIP: (i) the objectives fit

within the priorities defined in the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973) (paragraph 1.32); and (ii) the liaison institution, the Department of International Affairs (SAIN), is authorized to coordinate and monitor the overall operational program for all sectors covered by the line of credit (paragraph 1.1) Furthermore, for this individual operation: (i) a full institutional capacity analysis of the executing agency was prepared through the institutional capacity analysis platform, and it identified areas to be strengthened for correct program implementation (paragraphs 2.5 and 3.1); (ii) the operation's objectives were determined to contribute to achievement of the CCLIP's multisector objectives, by helping foster the adoption of new technologies in the productive sector (paragraphs 1.1 and 1.34); (iii) the operation is considered to fall within the e-economy sector under the CCLIP since it promotes the digital transformation of the public sector (paragraph 1.2); and (iv) the operation includes actions that must be taken in areas for improvement identified in the executing agency institutional capacity analysis (paragraph 3.1).

Development Effectiveness Matrix		
Summary		BR-L1566
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Micro / small / medium enterprises financed (#) -Enterprises provided with technical assistance (#) -Women beneficiaries of economic empowerment initiatives (#) -Agencies with strengthened digital technology and managerial capacity (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	Increase the prominence of the private sector, through the improvement of the quality of the business environment.
Country Program Results Matrix	GN-3034-2	The intervention is included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.3
3.1 Program Diagnosis		1.4
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.4
4. Ex ante Economic Analysis		7.5
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, Internal Audit. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The design and execution of this program is supported by the non reimbursable technical cooperation ATN/OC-18722 BR (US\$350.000).

Evaluability Assessment Note: The New Financing Instruments for Innovation in the State of Sao Paulo Program (BR-L1566) has as a general objective to increase productivity and access to private financing for innovation among startups and MSMEs in the state of Sao Paulo (ESP). The program proposes to contribute to that objective through two specific objectives: (i) to promote the growth of innovative startups from ESP, increasing financial leverage through new financing instruments; and (ii) to induce the development of innovation among beneficiary MSMEs from ESP, improving conditions of access to credit to stimulate private investment in innovation.

The program's diagnosis identifies the low productivity of firms as a central problem. Although ESP has the most active startup ecosystem in the country, and there is a supply of financing from different government entities, few innovative firms can scale up their projects due to lack of financing. This affects both startups in early stages (where there are also gender disparities) and established firms. Besides, current financing conditions complicate the adoption of digital technologies among MSMEs. Finally, a lack of coordination among government entities results in an unarticulated supply of financing for innovation. To remediate this, the program is based on two components that seek: to offer "smart" financing for innovative startups, and to offer financing for innovation to established MSMEs. However, the level of existing demand for each of the presented interventions remains unclear.

The program has SMART indicators, allowing to measure the scope of specific and general objectives. However, some of the targets can be overly ambitious, considering the project's timing and the novelty of interventions. In addition, some of the outputs are not SMART, since it is unclear if they will be achievable given a lack of established demand.

The economic analysis quantifies benefits as salary increases from productivity increases among beneficiary firms. It concludes that the project has an expected internal rate of return of 26%, showing different sensitivity scenarios. However, some of the assumptions used in the analysis are not justified with evidence.

The Monitoring and Evaluation Plan proposes two evaluation strategies. First, a causal nonexperimental evaluation, to understand if the intervention was effective in increasing the productivity of participating startups and MSMEs. This evaluation is important because there is scarce evidence of evaluations of new financial instruments (such as crowdfunding) with attribution, particularly in the local context. Second, for the rest of the results indicators, before and after reflective comparisons will be used.

RESULTS MATRIX

Objective:	The general objective of this program is to increase productivity and access to private financing for innovation in micro, small, and medium-sized enterprises (MSMEs) and ventures in the state of São Paulo. The specific objectives are: (i) to promote the growth of innovative enterprises in São Paulo by increasing financial leverage through new financial instruments; and (ii) to spur innovation among beneficiary MSMEs in São Paulo by improving credit conditions and stimulating private investment in innovation.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline value	Baseline year	Year 5 target	Means of verification	Comments
General development objective: To increase productivity and access to private financing for innovation in MSMEs and ventures in the state of São Paulo						
Monthly wage (average of the prior 12 months) (average for companies participating in the program expressed as % of the average for comparable nonparticipating companies)	%	100	2020	107	Annual Social Information Report (RAIS), Desenvolve SP administrative records	This measures the annual average monthly wages for workers at the MSMEs and ventures benefiting from the equity, venture debt, fast-disbursing loan, and guarantee instruments financed by the program (monitoring and evaluation plan).
External financing of businesses for innovation activities	%	4	2017	8.2	Innovation Survey (PINTEC)	This measures the percentage of external financing of companies for research, development, and other innovative activities at extractive and transformation companies in the state of São Paulo (monitoring and evaluation plan).

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Baseline year	Year 5 target	Means of verification	Comments
Specific development objective 1: To promote the growth of innovative enterprises in the state of São Paulo by increasing financial leverage through new financial instruments						
1.1 External leverage in enterprises benefiting from the equity instrument	%	76	2020	100	Desenvolve SP administrative records	This measures the external capital raised by the program equity-financed enterprises, expressed as a percentage of the total public financing provided by the program (monitoring and evaluation plan).

Indicators	Unit of measure	Baseline	Baseline year	Year 5 target	Means of verification	Comments
1.2 External leverage in enterprises benefiting from the venture debt instrument	%	0	2021	70	Desenvolve SP administrative records	This measures the external capital or venture debt financing raised by the program venture-debt-financed enterprises, expressed as a percentage of the total public financing provided by the program (monitoring and evaluation plan).
1.3 Number of employees (average of the prior year) (average for enterprises participating in the program expressed as % of the average for comparable nonparticipating enterprises)	%	100	2021	180	RAIS and Desenvolve SP administrative records	This measures the annual average number of employees of the enterprises benefiting from the program-financed equity and venture debt instruments (monitoring and evaluation plan).
Specific development objective 2: To spur innovation among beneficiary MSMEs in São Paulo by improving credit conditions and stimulating private investment in innovation						
2.1 Disbursement period	Weeks	16	2020	4	Desenvolve SP administrative records	This measures the reduction of transactional costs in access to credit for beneficiary MSMEs. The baseline corresponds to the average time for all operating Desenvolve SP loan operations (monitoring and evaluation plan).
2.2 Internal private investment in innovation activities and technology adoption (average of the past year) over sales	%	2	2017	3.5	PINTEC and Desenvolve SP administrative records	This measures internal investments in innovation made by the MSMEs benefiting from the program loan and guarantee instruments as a % of their total investments. The baseline corresponds to companies that had invested in innovation activities registered in PINTEC (monitoring and evaluation plan).
2.3 Enterprises that introduced innovations (as a % of all MSMEs participating in the program)	%	33	2017	42	PINTEC and Desenvolve SP administrative records	This measures the percentage of enterprises that introduced innovations in the post-treatment period over the total of all the MSMEs benefiting from the program-financed loan and guarantee instruments (monitoring and evaluation plan).
2.4 Number of employees (average of the prior year) (average for MSMEs participating in the program expressed as % of the average for comparable nonparticipating MSMEs)	%	100	2021	111	RAIS and Desenvolve SP administrative records	This measures the annual average number of employees of MSMEs benefiting from the program-financed loan instruments (monitoring and evaluation plan).

OUTPUTS

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Responsible institution
Component 1. Smart financing for innovative enterprises											
1.1 Innovative enterprises that contribute to the 2030 Agenda receiving investment through equity instruments ¹	Enterprises receiving investment	21	2020	19	125	99	164	23	430	Official report from the PMU to the IDB	Desenvolve SP
1.2 "Founding Women" pilot, which will finance innovative women-led enterprises that contribute to the 2030 Agenda ²	Pilots financed	0	2020	0.05	0.30	0.25	0.35	0.05	1		
1.3 Innovative enterprises that contribute to the 2030 Agenda financed through venture debt instruments ³	Enterprises financed	0	2021	82	381	381	408	108	1,360		

¹ "Invested in through equity instruments" means that the beneficiary enterprises have already been selected and have received an advance payment of the capital investment.

² Pro-gender indicator.

³ "Financed through venture debt instruments" is understood to mean that the beneficiary enterprises have been selected and have received the venture debt instrument disbursements.

Indicators	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Responsible institution
Component 2. Financing for innovation in established MSMEs⁴											
2.1 Enterprises financed with fast-disbursing loans ⁵ for innovation and technology adoption	Enterprises financed	122	2021	50	150	300	400	500	1,400	Official report from the PMU to the IDB	Desenvolve SP
2.2 Enterprises financed with fast-disbursing loans for innovation and technology adoption earmarked for industry 4.0 technologies		0	2021	1	5	12	28	50	96		
2.3 Enterprises financed with fast-disbursing loans for innovation and technology adoption aimed at environmental sustainability and climate change ⁶		16	2018	3	11	24	36	50	124		
2.4 Guarantees for innovation and technology adoption issued ⁷ in connection with the investment	Number of guarantees issued	102	2018	50	150	300	400	500	1,400		

⁴ According to Desenvolve SP's operational income criteria: a micro enterprise has annual sales of up to R\$360,000 (US\$72,000 equivalent); a small enterprise, from R\$360,000 (US\$72,000 equivalent) up to and including R\$4.8 million (US\$960,000 equivalent); and a medium-sized enterprise, from R\$4.8 million (US\$960,000 equivalent) up to and including R\$300 million (US\$60 million equivalent).

⁵ "Financed with fast-disbursing loans" means that the MSMEs have been selected and have received the fast-disbursing loan disbursements.

⁶ The activities that may be financed under this line are described in Annex IV to the program [Operating Regulations](#).

⁷ "Guarantee issued" means that the MSMEs have committed that guarantee in a loan contract to finance an innovation or technology adoption activity.

Country: Brazil

Division: IFD/CTI

Operation number: BR-L1566

Year: 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Agência de Fomento do Estado de São Paulo S.A (Desenvolve SP)

Operation name: New Innovation Financing Instruments for the State of São Paulo (BR-L1566). Second Individual Operation Under the Conditional Credit Line for Investment Projects (CCLIP) for the “Brazil Plus Digital” Program (BR-O0010)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country system in the operation (Any system or subsystem approved subsequently could be used for the operation, in accordance with the Bank’s terms of validation.)

<input checked="" type="checkbox"/> Budget	<input type="checkbox"/> Reports	<input checked="" type="checkbox"/> Information system	<input type="checkbox"/> National Competitive Bidding (NCB)
<input checked="" type="checkbox"/> Treasury	<input checked="" type="checkbox"/> Internal audit	<input checked="" type="checkbox"/> Shopping	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Accounting	<input type="checkbox"/> External control	<input type="checkbox"/> Individual consultants	

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/> Special features of fiduciary execution	Through project Components 1 and 2, the Bank will support the establishment of credit lines, guarantees, and new financing instruments to enable financial intermediaries to support startups in joining the innovation and technology adoption cycle. The executing agency will act as broker of the resources in the subloans granted to the beneficiaries. Through the program administration activities, the executing agency will directly conduct the necessary selection and contracting processes to strengthen and expand its institutional capacities in its role as innovation system coordinator. These activities are included in the project procurement plan . The program Operating Regulations will reinforce the fiduciary and integrity obligations required for these financial intermediation operations, as well as the eligibility requirements for the intermediary agents and final beneficiaries. A project management unit (PMU) will be in charge of execution and will report to the Desenvolve SP presidency.
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3. Fiduciary capacity

Fiduciary capacity of the executing agency	The institutional assessment for the program fiduciary management was prepared in June 2021 based on: (i) the country’s fiduciary context at the time; (ii) the results of the evaluation of the main fiduciary risks; (iii) the institutional analysis; and (iv) work meetings with the Bank project team, executing agency, and other State of São Paulo authorities. As a result, the executing agency’s fiduciary capacity was assessed as medium.
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4. Fiduciary risks and risk response

Risk classification	Risk	Risk level	Risk response
Human resources	The Desenvolve SP personnel do not have experience using the Bank's fiduciary policies, which could impact the timely execution of the program.	Medium-high	This risk will be mitigated by including, in the program Operating Regulations , execution arrangements detailing the PMU structure, powers and duties, and the qualifications of the staff assigned to and trained for the program.

5. Policies and guidelines applicable to the operation: Documents GN-2349-15 and GN-2350-15.

6. Exceptions to policies and guidelines: None.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Applicable exchange rate for substantiating expenses incurred in the borrower country's local currency, option (b)(i) of Article 4.10 of the General Rules of the Loan Contract.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	For the procurement of works, goods, and nonconsulting services procured in accordance with Bank policies (document GN-2349-15) and subject to international competitive bidding (ICB), the Bank's standard bidding documents or other documents agreed upon between the executing agency and the Bank for the specific procurement item will be used. Likewise, the selection and contracting of consulting services will be carried out according to the Policies for the Selection of Consultants (document GN-2350-15) using the standard request for proposals issued by the Bank or agreed upon by the executing agency and the Bank for the specific selection process. The project's sector specialist will be responsible for reviewing the technical specifications and terms of reference for procurement during the preparation of selection processes. This technical review may be conducted ex ante and is independent of the procurement review method.
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<input checked="" type="checkbox"/>	Use of country systems	The electronic reverse auction system will be used for the procurement of goods, works, and nonconsulting services as approved by the Bank's Board of Executive Directors. The operation procurement plan will indicate which procurement processes are to be executed using the country system as approved. If the scope of the Board's approval for use of the country system is expanded, the system will be applicable to this operation.		
<input checked="" type="checkbox"/>	Projects with financial intermediaries	Given that this loan provides funds to financial intermediaries to issue subloans, or uses another subfinancing modality, the agreements among the executing agency, its financial intermediaries, and the final beneficiaries will include the applicable clauses on Bank-prohibited practices. Alternatively, if the effective inclusion of these clauses in the aforementioned contracts is not possible or practical due to project circumstances, the project team will analyze other mechanisms for adopting acceptable controls and will appropriately link the relevant third parties to the sanction procedures. The design of these mechanisms will be coordinated with the Office of Institutional Integrity, with the support of the Bank's Legal Department, and will be included in the program Operating Regulations .		
<input checked="" type="checkbox"/>	Retroactive financing	The Bank may retroactively finance up to US\$39 million (20% of the proposed loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date to contract consulting services or procure goods, provided that requirements substantially similar to those established in the loan contract have been satisfied. These expenditures must have been incurred no earlier than the project profile approval date (7 July 2021), and under no circumstances may they include expenditures incurred more than 18 months before the loan approval date. Desenvolve SP foresees actions associated with the design of the Component 1 and 2 instruments, as well as the procurement of systems and studies.		
<input checked="" type="checkbox"/>	Procurement supervision	Supervision will be ex post, except where ex ante supervision is justified. When procurement processes are executed through the country system, they will be overseen by the country supervision system. The supervision method ((i) ex ante, (ii) ex post, or (iii) country system) will be determined for each selection process. Ex post reviews will be conducted every 12 months as per the project supervision plan, which is subject to changes during execution. Ex post review reports will include at least one visit. The thresholds for ex post review are:		
		Works	Goods/services	Consulting services
		No works planned	US\$5 million	US\$1 million
<input checked="" type="checkbox"/>	Records and files	The executing agency will be responsible for the documentation process and the safekeeping of files for purposes of supervision and audits.		

Main procurement items

Procurement description	Selection method	Estimated date	Estimated amount (US\$000)
Firms			
Innovation laboratory and financial solutions (design, implementation, operationalization, knowledge transfer)	QCBS	Year 1	1,400
Software and technology platforms for digital transformation	QCBS	Year 1	1,700
Education, training, and communication (digital media and dissemination)	QCBS	Year 1	600
Individuals			
External support from innovation specialists	IC	Year 1	300
Consulting services and studies	IC	Year 1	1,000

See [procurement plan](#).

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	The Accounting Superintendency is responsible for consolidating the Desenvolve SP budget, prepared with the information provided by the Financial and Trade Superintendency and other departments. External credit operations, including loans from multilateral organizations, are identified and monitored in specific budget lines (by funding).
<input checked="" type="checkbox"/>	Treasury and disbursement management	The project will use the Desenvolve SP cash management system. Expenditures will be subject to the budget and financial execution process, and will be duly registered in the financial information system. The Bank resources will be administered through an exclusive account that will make it possible to identify the loan proceeds and perform the respective bank reconciliations. Disbursements will be made in United States dollars, as advances of funds. The amount of funds advanced will be based on a projection of financial resources for up to 180 days. For advances subsequent to the first, documentation must be provided that substantiates at least 80% of all of the previously advanced funds. The exchange rate agreed upon with the executing agency for accounting for the expenses paid with advances of funds from the loan will be the internalization rate. To determine the equivalence of expenditures incurred in local currency or reimbursed against the loan, the agreed exchange rate will be the exchange rate set by the Central Bank of Brazil in effect on the effective date of payment of the eligible project expenditures.

<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	Desenvolve SP uses the SOFTPAR system, which integrates financial, budgetary, accounting, and cash management. The system can be audited and has access profiles and security guidelines. It also meets the minimum quality requirements called for by the Central Bank of Brazil and the IDB with regard to integration and controls, and will be used for the financial execution of the program. The disbursement and external audit financial reports required by the IDB will be prepared through a support system.
<input checked="" type="checkbox"/>	Internal control and auditing	The Superintendency of Risk Control, Compliance, and Regulations and the internal auditing management will perform the project control activities.
<input checked="" type="checkbox"/>	External control and financial reports	Desenvolve SP will select and contract external auditing services in accordance with the terms of reference previously agreed upon by the executing agency and the Bank. These terms will establish the type, timing, and scope of the review. The external auditor selected and the auditing standards to be applied will be acceptable to the Bank. External control will be exercised by a Bank-eligible external auditing firm. The annual audited financial statements will be submitted within 120 days after the close of each fiscal year. The final audited financial statements will be submitted within 120 days after the close of the date of the final disbursement or its respective extensions.
<input checked="" type="checkbox"/>	Financial supervision of the operation	The operation requires financial supervision that will include ex post review of disbursements and procurements, annual auditing, and review of disbursement requests. Under the responsibility of the fiduciary team, on site and desk reviews will also be conducted, subject to adjustments during execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Brazil. Loan ____/OC-BR to the Agência de Fomento do Estado de São Paulo S.A. (Desenvolve SP). New Innovation Financing Instruments for the State of São Paulo. Second Individual Loan Operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-O0010 - “Brasil Mais Digital”

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Agência de Fomento do Estado de São Paulo S.A. (Desenvolve SP), as borrower, and with the Federative Republic of Brazil, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the program New Innovation Financing Instruments for the State of São Paulo, which constitutes the second individual loan operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-O0010 – “Brasil Mais Digital”, approved by Resolution DE-23/21 on 7 April of 2021. Such financing will be for the amount of up to US\$195,000,000, from the resources of the Bank’s Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2022)