

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

BRAZIL

BID AO CUBO (BID³):
INTERNATIONALIZATION AND INTEGRATION OF THE
BRAZILIAN INNOVATION ECOSYSTEM

(BR-T1403)

DONORS MEMORANDUM

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PROJECT SUMMARY

BRASIL

BID AO CUBO (BID³): INTERNATIONALIZATION AND INTEGRATION OF THE BRAZILIAN INNOVATION ECOSYSTEM (BR-T1403)

Brazil has been at the forefront of Latin America's growth in the innovation and technology ecosystem and has been leading the growth in venture capital (VC) investments in Latin America and the Caribbean (LAC) with over USD 750 million in VC investments in 2017, for the first time in history. The emergence of rapid-growing and high-impact startups in Brazil (known as "unicorns") in Brazil can be attributed to the strengthening of its innovation ecosystem, which has been growing for the past two decades and saw the multiplication and consolidation of key actors in recent years – such as accelerators, venture capital funds, co-working spaces, and tech centers.

Although Brazil has developed one of the most active ecosystems in the region, the development path of its innovation ecosystem has been facing three main internal and external gaps that constrain its further advancement in a more open, inclusive and regionally integrated manner: 1) its relative disconnection from the rest of LAC; 2) the concentration in the city of São Paulo and relatively detachment from the last-mile regions of the country; 3) the lack of adoption of innovation by the public sector (federal, state, and local level), which is still cumbersome.

In conjunction with CUBO, the largest and unique co-creation space in Brazil, the project's ultimate objective is to create channels to connect the Brazilian innovation ecosystem with other LAC countries, with last-mile geographical areas within Brazil, and with the public sector; thereby expanding the business opportunities available to its stakeholders. By establishing those channels, the project will ultimately help the Brazilian innovation ecosystem reach the next stage of maturity, following a more open and inclusive development path. To this end, three lines of action will be taken in conjunction with CUBO and other ecosystem players: 1) Support the internationalization of the Brazilian innovation ecosystem by promoting the exchange and matchmaking between Brazilian ecosystem hubs and those of the region; 2) expand the outreach and inclusiveness of the Brazilian key innovation hubs (located in São Paulo to last mile geographical regions of the country (especially the North and Northeast regions); and 3) promote the culture and adoption of innovation in a segment that could use innovation as a driver to scale and impact – the Brazilian public sector – through matchmaking, training and capacity building of selected public sector officials.

The project will support the internationalization and scaling up in Brazil of at least 30 startups from LAC, promote at least 8 regional agreements between innovation ecosystems actors of Brazil and LAC, accelerate over 15 startups in last-mile regions of the country, and support the adoption of at least five innovative solutions to improve public services by the public sector, as well as benefit at least another one thousand entrepreneurs and ecosystems actors through an online platform.

ANNEXES

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Draft Resolution

INFORMATION AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE MIF PROJECT INFORMATION SYSTEM

ANNEX III Table of Project Milestones

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ACRONYMS AND ABBREVIATIONS

Bi	Billion
FINEP	Brazilian Innovation Agency (<i>Financiadora de Inovação e Pesquisa</i>)
IDBG	Inter-American Development Bank Group
Innovation ecosystem (or simply “ecosystem”)	As an analogy to biological ecosystems, innovation ecosystems include all the actors involved in the innovation cycle (such as universities, tech centers, co-creation spaces, accelerators, venture capital funds, startups, incubators and entrepreneurs) in a country or area as well as the business environment they are inserted in, functioning as a dynamic system within which innovation takes shape.
Innovation Hub (or simply “hub”)	A key institution or physical space that represents a density point within innovation ecosystems, around which multiple actors connect and innovations are fostered and modeled.
Innovation supporting institutions (or simply “supporting institutions”)	Institutions within the innovation ecosystem, other than startups and pure investors, which provide services or partner up with entrepreneurs to support the set up and growth of startups, such as co-creation spaces, accelerators, incubators, government agencies, etc.
IDB	Inter-American Development Bank
IPO	Initial Public Offering
LAC	Latin America and the Caribbean
LAVCA	Latin American Private Equity & Venture Capital Association
M	Million
MoU	Memorandum of Understanding
IDB LAB	Multilateral Investment Fund’s new name
MSME	Micro, small and medium-sized enterprises
NYSE	New York Stock Exchange
USD	United States Dollar
VC	Venture Capital

PROJECT INFORMATION

BRAZIL

BID AO CUBO (BID3): **INTERNATIONALIZATION AND INTEGRATION OF THE BRAZILIAN INNOVATION ECOSYSTEM** **(BR-T1403)**

Country and Geographic Location:	Brazil, country-wide.		
Executing Agency:	IDB LAB (Multilateral Investment Fund) will be the executor for its own resources. The IDB LAB and CUBO will each execute their own sources of funding.		
Focus Area:	Knowledge Economy.		
Coordination with Other Donors/Bank Operations:	This project is an IDB Group-wide effort, led and executed by the IDB LAB. It will be conducted in close collaboration with KIC, IFD/CTI, INO/SMC (IDB-Invest), and the CBR Open Innovation program, and includes team members from all these departments, who will participate in the governance of the project.		
Project Beneficiaries:	Startups and entrepreneurs from Brazil and Latin America and the Caribbean (LAC), as well as supporting institutions of the Brazilian and LAC innovation ecosystems (such as incubators and accelerators), Brazilian national and local government and public agencies, and corporations.		
Financing:	Technical Cooperation:	USD 1,015,000	51%
	TOTAL IDB LAB FUNDING:	USD 1,015,000	
	Counterpart:	USD 960,000	49%
	TOTAL PROJECT BUDGET:	USD 1,975,000	100%
Execution and Disbursement Period:	36 months of execution and 40 months of disbursement.		
Special Contractual Conditions:	Special conditions precedent to first disbursement will be: i) execution of Letter of Agreement with CUBO; ii) initial agreements established with local actors in Brazil (outside of Sao Paulo) and throughout the LAC region.		
Environmental and Social Impact Review	This operation was screened and classified as required by the IDB's safeguard policy (OP-703) on 03 rd October 2018. Given the limited impacts and risks, the proposed category for the project is C.		
Unit responsible for disbursements	CBR.		

I. The Problem

A. Problem Description

- 1.1. **Background on the Brazilian Innovation Ecosystem.** Brazil has been at the forefront of Latin America's growth in the innovation and technology ecosystem, hosting an ever-growing number of accelerators, tech centers and venture capital (VC) funds. The country has been leading the growth in VC investments in Latin America and the Caribbean (LAC) – which in 2017 has surpassed USD 1 Bi in the region for the first time in history. Brazil accounted for 75% of such amount and 45% of the total number of investments in startups in the region¹. Some of the most emblematic rapid-growing startups flourished out of Brazil, including highly successful “unicorns” (with valuations over USD 1 bi) such as 99 (locally originated rideshare company), *XP Investments* (digital broker and asset manager), *Nubank* (digital credit card issuer), *PagSeguro* (mobile payment system), and near-unicorn scale ups such as *Movile* (online marketplace for food) and *ARCO Platform* (recent IPO at New York Stock Exchange (NYSE) in September 2018), amongst others.
- 1.2. **Dynamism in Early Stage Businesses as a Development Driver.** As shown in a recent research by IFD/CTI², fast-growing and innovative early stage businesses are one of the key drivers of both productivity growth and inclusion, carrying out disruptive innovation that can address some of the most challenging market inefficiencies (such as in finance, logistics, manufacturing) and bringing products and services to micro, small and medium-sized enterprises (MSMEs) and underserved populations, helping to solve key social and environmental issues. Moreover, per IDB LAB's experience in the region and in Brazil, there is an emerging and growing generation of dynamic entrepreneurs that focus on solving pressing social issues by leveraging the power of technology, pursuing both financial and social returns.³
- 1.3. **The Importance of Innovation Ecosystems.** Successful startups do not normally flourish in a vacuum, but amid a constellation of supporting institutions which support each link of the innovation cycle: Universities and technology centers, incubators and accelerators, co-creation spaces, venture capital funds, corporations, governments (inter alia). As per a study from OECD in 2016⁴, strong ecosystems are not only those that merely have strong institutions but those in which the institutions are strongly connected and work collaboratively under aligned incentives to support innovation in each link of the cycle, from product development to scaling up products in the market.

1 LAVCA (2018) “Inside Latin America's Breakout Year in Tech”.

2 “The new imperative of innovation: policy perspectives for Latin America and the Caribbean.” Navarro, J.C.; Benavente, J.M.; and Crespi, G. IDB Monograph, 396. 2016.

3 “Innovation: the new Latin American entrepreneurial brand” Susana García-Robles, May 2017. <https://www.fomin.org/en-us/Home/FOMINblog/Blogs/DetailsBlog/ArtMID/13858/ArticleID/12681/Innovation-the-new-Latin-American-entrepreneurial-brand.aspx>

4 OECD (2016): “Start-up Latin America 2016 – Assessment and Recommendations”.

- 1.4. **Current State of the Brazilian Innovation Ecosystem.** The initial shaping of the entrepreneurship innovation ecosystem took place in the 2000's, during which time the IDB LAB assumed a protagonist role as a market maker supporting the emergence of the first generation of first-time fund managers. From the end of said decade to recent years, there has been a proliferation of startups and supporting institutions, with the consolidation of key accelerators, seed and venture capital funds, and co-creation spaces that act as hubs, or density points, around which innovation takes form; startups are created, collaborate and grow. As international experience shows⁵, the transition to a mature phase of ecosystem growth involve the expansion in outreach and increasing connectiveness of such central actors ("hubs"), plugging in a growing number of entrepreneurs and supporting institutions of their country or region under their network and co-creation programs, as well as pursuing internationalization through the collaboration with ecosystem actors in other countries. Brazil may be ready to take its ecosystem to this next stage.
- 1.5. **Problem Statement: Internal and External Disconnection.** Although Brazil has developed one of the most active VC industries in the region, this type of investment is still less than 0.05% of its GDP⁶. Although at least twice the level of the other largest countries in LAC (Colombia: 0.03%, Mexico and Argentina: 0.01%)⁷, these levels are still low compared to the greatest innovation hubs in the developed world (Israel 0.38%, United States 0.35%, Canada 0.15%, Korea 0.10%)⁸. Following the development path of the Brazilian innovation ecosystem, three main internal and external missing links are being increasingly unveiled, as detailed below.
- 1.6. **Disconnection from Other Emerging Ecosystems in the LAC Region.** The Brazil innovation ecosystem is still relatively disconnected from the rest of the LAC region in terms of cross fertilization and partnerships between each country's local "hubs", and co-investments from seed and venture capital firms, which limits the growth potential for both Brazilian and the region's ecosystems. Only 22% of the VC deals that take place in LAC involve co-investment between at least two actors of LAC, whereas 67% involve co-investments with the rest of the world. In spite of having a domestic market attractive to scaling up for startups of the region, less than 5% of the startups in the main acceleration and co-creation hubs in Brazil are from LAC. Regional cooperation can help LAC countries to speed up learning processes and close funding and knowledge gaps faced by the country, benefiting both Brazil and the region.
- 1.7. **Concentration and Disconnection of the Main Hub (City of Sao Paulo) from the Rest of The Country.** The ecosystem is still centered in the city of Sao Paulo, which remains relatively detached from other areas (especially the North and Northeast) where innovative solutions to development issues are needed the most. It is not so much that other regions should replicate Sao Paulo's ecosystem, but rather the focus should be on making the connections between the Sao Paulo hub

5 In historical perspective, the integration and collaboration of the forefront institutions in innovations ecosystems is a common feature of innovations ecosystems that were able to grow from intermediate to a more mature stage. For more studies in that regard, please consult the following publications, as examples. Deloitte (2016) "How to innovate the Silicon Valley way"; Harvard Business Review (2012) "How to Create an Innovation Ecosystem".

6 "2017/18 Scorecard: The Private Equity and Venture Capital Environment in Latin America" LAVCA.

7 LAVCA (2018) "Inside Latin America's Breakout Year in Tech".

8 OECD (2017) "Entrepreneurship at a Glance 2017".

and other regions. The connection between the ecosystem hubs of Sao Paulo – composed of the key accelerators, tech centers, co-creation spaces, investors, mentors, etc – and the North-Northeast axis would allow for the inclusion of these regions to the resources the Sao Paulo ecosystem has (including knowledge, expertise, network and co-creation opportunities and potential investments). Given that issue, 61% of the startups from Brazil are originated in Sao Paulo state (disproportional to its share of the population, 20%), and only 17% are from regions outside of Southeast⁹.

- 1.8. **Missing Links with Government and Public Agencies.** Adoption of technological solutions by governments (federal, state, and local level) to address development issues has been challenging, especially in the most pressing public services, such as health, education, public safety, sanitation, etc. Apart from the public programs to support startups, which have flourished in the country and were important in the initial shaping of the ecosystem, governments and public sector agencies have yet to become active adopters of innovation, which would benefit the efficiency and effectiveness of the public services at the same time as it would represent a natural scaling up partner of successful innovations in the country. Brazil's public sector remains relatively detached from the innovation ecosystem from an adoption point of view, and procurement laws do not favor the purchasing of goods and services to finance research and development that involve technological risk. Most of the firms that benefit from public procurement in Brazil are the ones that innovate the least; as shown by the negative correlation between the technological investment of firms and their participation in public procurement bids in Brazil¹⁰¹¹.
- 1.9. Collectively, these three missing links represent some of the main gaps constraining the Brazilian innovation ecosystem to expand nationally and globally in an inclusive and regionally-integrated manner to achieve a more mature phase of development that can benefit the whole country and contribute to the region.
- 1.10. **IDB LAB's Experience in Venture Capital Funds in Brazil and in Ecosystem Building.** The IDB LAB played decisive role in the initial shaping and strengthening of the Brazilian VC ecosystem and industry. Working with the Brazilian innovation agency *Financier de Estudos e Projetos* (FINEP), the IDB LAB implemented two comprehensive programs to improve the VC ecosystem: INOVAR I (BR-M1031) and INOVAR II (BR-M1044). IDB LAB has also been a relevant anchor investor for innovative funds and first-time managers since the 2000's, reaching a portfolio of 18 funds in 2017. Current IDB LAB 's strategy in Brazil is to support the ecosystem to reach maturity with high development impact and inclusiveness and bridging selected financing and expertise gaps through more selected investments in VC funds. In terms of ecosystem building, the IDB LAB has supported the Brazilian market through a series of technical cooperation projects, such as BR-M1029 – “Disseminating Lessons Learned and Best Practices through the Private Equity and Venture Capital Center sponsored by the Brazilian PE/VC Association ABVCAP”,

9 OECD (2016): “Start-up Latin America 2016 – Assessment and Recommendations”.

10 IPEA (2005). “Como as aquisições governamentais poderão ser usadas para fomentar o desenvolvimento tecnológico e apoiar pequenas empresas”.

11 IPEA (2014). “O poder de compras governamental como instrumento de desenvolvimento tecnológico: análise do caso brasileiro”.

BR-M1102 – “Development of the venture capital industry in Brazil”; and more recently, BR-T1346 – “Promotion of the Social Environmental Impact Investment and Enterprise Ecosystem”. IDB LAB’s experience shows that it is instrumental in ecosystem projects to have partners that are at the forefront of the ecosystems, acting as hubs to attract other partners to expand the outreach and impact of the programs, as well as generate business opportunities for the entrepreneurs, startups, investors and other ecosystem players, so to generate interest and aligned incentives. These lessons were incorporated in the design of this project.

II. The Innovation Proposal

A. Project Description

- 2.1 **Objectives.** In conjunction with CUBO, the largest co-creation space in Brazil (detailed description in Section V), the project’s objective is to create channels to connect the Brazilian innovation ecosystem with other LAC countries, with last-mile geographical areas within Brazil, and with the public sector; thereby expanding the business opportunities available to its stakeholders. By establishing those channels, the project will ultimately help the Brazilian innovation ecosystem reach the next stage of maturity, following a more open and inclusive development path. The project will bring resources and expertise of the central Brazilian innovation hubs (especially CUBO) closer to these untapped markets.
- 2.2 **Solution proposed.** To this end, three lines of action will be taken, in conjunction with CUBO and other ecosystem players: 1) Support the internationalization of the Brazilian innovation ecosystem by promoting the exchange and matchmaking between Brazilian ecosystem hubs and startups and those of the region; 2) expand the outreach and inclusiveness of the Brazilian key innovation hubs (located in Sao Paulo), by connecting the local actors, entrepreneurs and startups from the last mile geographical regions of the country (especially the North and Northeast regions) to key actors (investors, accelerators and incubators) and tools (mentorship, courses, financing) available around the central hubs in Sao Paulo; and 3) promote the culture and adoption of innovation in a segment that could use innovation as a driver to scale and impact – the Brazilian public sector – through matchmaking, training and capacity building of selected public sector officials.
- 2.3 **The role of CUBO.** With more than 200 resident startups, CUBO is a non-profit institution, founded by Banco Itaú and Redpoint e.Ventures. It has an extensive co-creation program that connects and promotes startups with larger corporations and the ecosystem at large. The project will incite CUBO to go an extra mile, by promoting the expansion of its current co-creation program to other Latin American countries in an open and inclusive manner. In addition, the project will push CUBO towards other less developed regions of the country, where there are potential disruptive startups that lack access to accelerators, incubators and investors. Finally, the project will work on the identification of main challenges faced by the public sector to adopt innovation and train selected public sector officials to better understand innovation and how it can improve the quality and efficiency of public services in Brazil. IDB LAB and CUBO will be conducting the project activities in a parallel and coordinated manner, each executing its own sources of funding, under a

unifying project strategy, work plan, milestones, goals and coordination governance structure.

- 2.4 **Innovation.** This will be the first project in which the IDBG (not only the IDB LAB) and a strategic innovation ecosystem partner to endorse the internationalization of a national ecosystem and promote the adoption of innovative solutions originated by startups by both public and private sectors. This will be an IDBG-wide effort that will be led and executed by the IDB LAB, and conducted in collaboration with KIC and CBR. CUBO, on the other hand, as the largest hub in the Brazilian ecosystem and committed to the development and growth of the Brazilian startups and innovation ecosystem at large, is eager to promote the exchange between Brazilian and regional startups in addition to being very interested in scaling the innovative solutions of these startups to the public sector. Also, this will be the first time IDBG partners with a large ecosystem hub to serve as a platform to enable co-creation, which – differently from pure incubator or acceleration models – stimulate ecosystem actors to design new products, services, or business models in a collaborative, rather than a purely competition-based, environment. Co-creation is a key pillar to generate connections between ecosystem players in an organic and continuous fashion, resulting in better products and services, and easy-to-capture synergy gains. In addition, the project innovates in connecting a central ecosystem player beyond its regular outreach, by bringing CUBO's co-creation approach to unexplored parts of the Brazilian innovation ecosystem by addressing the challenges to boost its extension and inclusiveness. The collaboration with CUBO is also expected to serve as a platform for incorporating more of the co-creation approach to IDBG.
- 2.5 **Component I.** Internationalization of the Brazilian innovation ecosystem. This component is aimed at the promotion of the exchange and matchmaking between the Brazilian and other LAC ecosystems. This will be executed through two main activities: 1) the "IDB-CUBO Startup Fellowship Program" (or simply "Fellowship"), which will include the identification, selection and inclusion onto CUBO's co-creation program of 30 Latin American startups (10 startups per year for three years); 2) Five "LAC Roadshows" of CUBO experts throughout LAC to disseminate CUBO's model and establish partnerships with peer institutions that act as innovation hubs in (initially) five countries (Argentina, Chile, Colombia, Mexico and Panama). This will include the identification of partners which could operate the other way around: embracing Brazilian startups that intend to scale to other LAC countries in their local acceleration or residency programs. The Roadshows will also be an opportunity identify potential startups to apply to the Fellowship.
- 2.6 The intended outcome of Component I is establishing key channels of collaboration between the Brazilian ecosystem and the rest of the region by connecting their key ecosystem hubs and enabling the flows of startups regionally. The interconnection of Brazil-LAC is expected to generate significant flow of ideas, co-creation, co-incubation, co-acceleration and co-investment between regional ecosystems, which can lead to mutual benefits in accelerating their learning curves, generating synergies and facilitating the scaling up of startups regionally.

- 2.7 **IDBG-CUBO Startup Fellowship Program.** The identified LAC startups that will participate in the Fellowship in Sao Paulo will be selected and curated¹² by CUBO and will be focused on the following verticals: EdTech, Ag Tech, FinTech, Health Tech and E-Commerce/Retail. These startups will benefit from a customized co-creation program that will include both: i) courses and mentorship sessions on key insights about the Brazilian market, the sectors they operate, regulation, public sector needs and opportunities and ii) connection¹³ between these Fellows startups and potential local partners, accelerators and investors, corporations (and other ecosystem players) in Brazil. The participation of each startup in the Fellowship Program will last from 8 to 10 weeks and will be co-designed by CUBO and the project team (thereafter referred as BID³ team).
- 2.8 The Fellowship will provide vital business-oriented mentorship required by the startups' teams to address the multiple challenges they face in the internalization phase of business. This stage is crucial to help them achieve the proof of concept in the local market and acquisition of the first international clients to then grow and scale their businesses in the new country. Such mentorship is typically provided by key accelerators, co-creation spaces and venture capital funds with internationalization expertise, which provide hands-on involvement in enhancing the companies' sales and marketing strategy, governance structure, and resources planning.
- 2.9 **LAC Roadshows and regional partnerships.** The roadshows to five different countries will be designed by the project team and local IDBG colleagues in each country. The main objective is to introduce CUBO's model to local peer institutions and establish partnerships¹⁴ for collaboration among the key ecosystem hubs in the region, including, as examples, *NXTP* in Argentina, *iNNpuls* and *RutaN* in Colombia, *Startup Chile* in Chile, *COW* in Mexico and *Ciudad del Saber* and *Fundacion Ideas Maestras* in Panama, promoting the connection between the Brazilian innovation ecosystem with other regional ecosystem and key ecosystem actors. The Road Show will also serve to identify startups in these countries that intend to participate in the Fellowship and stimulate them to apply. The roadshows will count with the presence of two CUBO experts and will last one week each.
- 2.10 **Component II. Geographical Integration of the Brazilian ecosystem (BID3 on the Road)** The objective of this component is to bring the opportunities, resources and network of the key actors in the São Paulo innovation ecosystem to startups and ecosystem players based in the last mile geographical areas of the country, especially the North and Northeastern regions. To this end, two complementary lines of action, one offline and one online, will be taken. First, the program will promote mini immersion programs organized jointly by CUBO and local actors in the North and Northeast regions of Brazil, connecting the main hub of Sao Paulo ecosystem and those of such regions. At the same time, a digital strategy will be taken, which

12 CUBO has its own reputable curating method to select startups that will become CUBO's residents as part of the project. CUBO considers the startup product or innovation (if they are within the areas of health, EdTech, fintech, e-commerce and Agtech); their team, their size, and their capacity to grow.

13 The connection/formal introductions will be provided and promoted by CUBO in a structured fashion during residency at CUBO. This activity will count as one of CUBO's counterpart contributions to the project.

14 Partnerships in the context of the project mean any contract, memorandum of understanding or letter of intent or agreement signed between institutions.

includes the development and deployment of a new digital platform to be constructed by CUBO to democratize the access to the Sao Paulo's ecosystem.

- 2.11 **Mini-Immersion Programs.** In spite of the existence of a few hubs in North and Northeast – such as Porto Digital, located in Recife, Pernambuco – the resources and network available to startups in the Sao Paulo ecosystem, in spite of its importance to the success of the new enterprises, are rarely made available to the last-mile regions. To bridge such missing links, CUBO has been piloting initiatives that promote fast-immersion programs in other regions called “CUBO on the ROAD”. The collaboration with IDBG will expand such initial efforts and institutionalize it by connecting CUBO to local actors so to integrate their ecosystems.
- 2.12 These mini-immersion programs will include modules for pre-selected local startups, such as fast track acceleration and mentorship to make the entrepreneurs knowledgeable of the resources available in Sao Paulo and be ready in preparing themselves to pursue such opportunities, and the identification and establishment of partnerships of CUBO with local hubs in these regions, which will act as the sustained channel of communication between the regions. Six trips are planned for this component: Two to the North of Brazil and four trips to the Northeast. The trips will be designed by the project team with inputs from CUBO specialists. Potential local participants will be identified and may count with the support of *Impact Hub*, *Porto Digital*, *Fundação CERTI* and others. The trips will last two weeks each and will be focused on the 3-4 days mini-immersion programs and training of potential CUBO ambassadors and potential local partners in these regions.
- 2.13 **Digital platform.** The digital platform will offer online the various services provided by CUBO to their resident startups and make these services available for free to entrepreneurs, startups and local actors from the whole country. These services include, inter alia: An online educational portal with mentoring sessions on key entrepreneurship dimensions (e.g. setting up a startup, fund raising, building a team, developing a product, etc); matchmaking of startups and supporting actors according to their sectors and business models, sector-specific seminars, marketing and sales tools, talent recruiting. Currently these services provided by CUBO are only available for residents at the CUBO building in São Paulo. The platform will be built in house by CUBO.
- 2.14 **Component III: *BID³ Ecosystem-Public Sector Matchmaking program*.** This component is aimed at promoting the adoption of innovation by public sector clients of the IDBG and will also benefit few selected IDB Invest clients. It has two main activities: 1) Mapping of main public sector challenges, or key inefficiency gaps in public services, within IDBG portfolio in Brazil and of startups which may offer innovative solutions to help addressing such issues; 2) Matchmaking between IDBG public sector clients in Brazil and the identified startups. Additionally, this component will support the development of a study on main challenges for innovation adoption by public sector in Brazil as well as promote capacity building of selected IDBG clients.
- 2.15 Through the first activity of Component III (mapping of public sector clients demands and relevant startups), the team will investigate, in collaboration with CBR and KIC, the current public sector portfolio in Brazil and identify which clients would be more prone and open to adopt innovation within the timeframe of the execution of the

project. The second activity, matchmaking between the IDBG clients and startups, will be carried out by CUBO specialists after the mapping led by IDBG is finalized and validated by the IDBG Representative in Brazil.

- 2.16 In parallel, the project team will procure an independent study that will serve as a reference document to identify main bottlenecks that currently Brazilian public sector faces to adopt innovation (such as public procurement, regulation, mindset etc.) and recommendations to enable the public sector to adopt innovation according to national procurement policy and to promote regulatory and implementation improvements for the public sector to adopt innovation. Finally, this component will focus on capacity building and training of selected public sector officials of IDB clients in Brazil to facilitate their access to the innovation ecosystem and the identification innovative solutions that can improve public sector effectiveness and efficiency.

B. Project Results, Measurement, Monitoring and Evaluation

- 2.17 This is a project to support the expansion, internationalization and integration of the Brazilian innovation ecosystem in conjunction with the largest ecosystem hub in Brazil: CUBO. The expected result is threefold: (1) the creation of organic and sustainable channels of collaboration between Brazil and LAC, (2) the connection of Sao Paulo's innovation ecosystem with the rest of the country, and (3) an increase of the adoption of innovation by the Brazilian public sector.
- 2.18 The results matrix (see annex I) indicators will be followed every semester by the BID³ team and inserted in the PSRs accordingly.

III. Alignment with IDB Group, Scalability, and Risks

A. Alignment with IDB Group

- 3.1. The project has been designed jointly with CBR, KIC, CTI and IDB-Invest teams and draws on the IDB LAB experience in working with various innovation ecosystem players in different countries; CBR's open innovation initiative, on IDB Invest Business plan for 2016-2019 and the Brazil country strategy for 2016-2018 and the new country strategy focus areas (currently in elaboration).
- 3.2. The current IDBG strategy for Brazil has competitiveness and productivity as one of its main pillars and innovation ecosystem is one of the enabling factors to address these two important challenges for Brazil¹⁵. In addition, the project is aligned with IDB Invest's business plan for 2016 to 2019, which mentions that one of its priority business areas was to "support for activities aimed at enhancing competitiveness through innovation". In addition, for IDB Invest, it's important to help clients innovate and bring their products and services to the Industry 4.0 era, where sectors are repeatedly impacted by astounding amounts of data, connections and technologies. In this sense, by bringing IDBG closer to the Brazilian Innovation Ecosystem, it is

¹⁵ IDB Brazil Country Strategy (2016-2018). P.13. paragraph 3.21.

expected that IDB Invest and its clients will also benefit from the business opportunities to be generated by the project.

- 3.3. The project is also aligned with CBR's Open Innovation initiative, aimed at the matchmaking between public sector clients of IDB in Brazil with technology-based startups and scaleups that can help IDB's client become more efficient and effective in times of fiscal constraints. The project is also expected to capture synergy gains from the recently approved loan to FINEP (BR-L1490) to support the innovation financing via startups in Brazil.

B. Scalability

- 3.4. The project has scalability at the core of its design by supporting and promoting the connection of the CUBO model to other LAC countries and last-mile regions within Brazil. The same applies to what concerns the adoption and scalability of innovation by the public sector. The project aims to support the insertion of the public sector in the core of the Brazil innovation ecosystem so the relationship and networking between public sector and the innovation stakeholders occur in an organic and systematic fashion. In this sense, the project is an enabler of the adoption of innovation at large by the Brazilian public sector and the dissemination of this ecosystem to other countries. The project has as its main pillars the early involvement of strong public or private actors, the promotion and matchmaking between disruptive potential innovators with the public sector and other peers in different regions and countries, and a strong outreach effort to engage with different stakeholders throughout implementation.
- 3.5. An example of how scale will be considered by the project is Component III and its activities that are aimed at attracting public sector procurement officials to make them not only learn about the innovation ecosystem but also meet potential startups that can help them bring public sector innovation to scale.

C. Project and Institutional Risks

- 3.6. CUBO is a highly-dynamic institution that constantly reviews its programs and activities to better support its resident startups community, which means that what currently may be a priority activity for CUBO, may be replaced by other unforeseen activities as per the startups demands. This may require, therefore, a review of the activities to be executed jointly with the IDB LAB throughout the course of the execution period.
- 3.7. Given the breadth of the project, the IDB LAB and CUBO will each execute their own sources of funding. As such, the execution of IDB LAB and CUBO will occur as complementary and parallel efforts which may demand a governance mechanism to ensure coordination and enforcement of the execution of the activities planned.
- 3.8. In order to mitigate such risks, a Steering Committee composed by members of both institutions will be formed to validate and agree on potential adjustments the project may incur during execution. This committee will meet quarterly or whenever there is a need to adjust the timeline, budget or activities, whatever comes first. The Steering

Committee will be the governance body in which the strategic decisions of the project will be made.

IV. Instrument and Budget Proposal

- 4.1. The project has a total cost of USD 1,975,000, of which USD 1,015,00 (51.4%) will be provided by the IDB LAB as non-reimbursable technical-cooperation funding, and USD 960,000 (48.6%) by CUBO.
- 4.2. Retroactive Recognition of Counterpart Funds. CUBO's expenditures as the counterpart for up to a maximum of USD 70,000, incurred on or after the date of the project analysis mission, may be recognized.

Project Categories	IDB LAB	Counterpart	Total
Component 1: Internationalization of the Brazilian innovation ecosystem	USD 340,000	USD 488,960	USD 828,960
Component 2: Regionalization (BID and CUBO on the ROAD)	USD 450,000	USD 160,000	USD 610,000
Component 3: Ecosystem-public sector matchmaking program	USD 125,000	USD 311,040	USD 436,040
Coordination	USD 70,000		USD 70,000
Independent Evaluation	USD 25,000		USD 25,000
Contingencies	USD 5,000		USD 5,000
Grand Total	USD 1,015,000	USD 960,000	USD 1,975,000
% of Financing	51	49	

V. CUBO and Implementation Structure

A. CUBO's Description

- 5.1. CUBO is the largest co-creation and co-working center of technological entrepreneurs of Latin America and the Caribbean. It was founded in 2015 by *Banco Itaú* and *Redpoint eVentures*¹⁶ in São Paulo, Brazil as a center designed to help tech startups to cross fertilize, collaborate and connect to the key actors of the Brazilian innovation ecosystem in a single space (VC funds, corporations, tech centers). CUBO is based in a 14-floor building and currently has 210 resident-startups.
- 5.2. As a density point of the innovation ecosystem, CUBO's business model is unique and mix three main services: i) physical co-working spaces for the resident startups, which are based at the CUBO building and initiatives that promotes startups of the same sector and business model to collaborate and co-create; ii) initiatives that promote the connection between entrepreneurs, mentors, researchers, investors, and corporations to support the success and development of highly innovative and

¹⁶ Banco Itaú is one of the largest financial conglomerates in Brazil. RedPoint e.ventures is a leading venture capital fund in the country.

technology driven startups, for which CUBO acts as a central coordinator matchmaking startups and corporates, potential investors according to their interests; and iii) a series of in-house services and support provided by CUBO, such as: training on key business dimensions (over 5 events or training sessions currently offered per day), talent recruiting, self-acceleration tools, and mentorship to the entrepreneurs. In over two years of operation, resident startups received more than USD 50 M in investments, grew their revenue over USD 70M and closed over 100 deals with corporations either in sales of products/services or through acquisitions.

- 5.3. CUBO is a not-for-profit institution that obtain resources from both its own operations (mostly resident fees paid by the residence startups according to their stage and number of employees, and rent of their event spaces, used by corporations) and sponsorship from leading contributors, such as Microsoft, Kroton, Accenture, Coca-Cola, among several other corporations.
- 5.4. The project is expected to bring CUBO to the next level by supporting it to expand its outreach and inclusiveness to unexplored areas, such as connecting it to the LAC region, to other regions in Brazil and to the public sector at large.

B. Implementation Structure and Mechanism

- 5.5. Given CUBO's very lean structure – five employees and a strong technological driven back office – its unable to execute a traditional IDB LAB's technical cooperation (managing third-party resources). Given the breadth of the program, its strategic importance to IDBG in Brazil and the unique expertise provided by CUBO, the IDB LAB will execute its own resources and will also be responsible for monitoring the project implementation as a whole and providing progress reports, while ensuring the appropriate governance of the project.
- 5.6. Project coordination will be led by IDB LAB's team in Brazil, which will collect information, execute the project and promote the necessary linkages between IDBG and the Brazilian innovation ecosystem. IDB LAB team will report to the team leader and to the IDBG Representative in Brazil. The coordinator will also call quarterly Steering Committee meetings to discuss project status and execute the acquisitions plan as approved by IDB LAB and CUBO. The proposed implementation mechanism will address project objectives and deliver its promised results and impact.

VI. Compliance with Milestones and Special Fiduciary Arrangements

- 6.1. **Disbursement by Results, Fiduciary Arrangements.** IDB LAB will adhere to the standard IDB LAB disbursement by results, Bank procurement policy¹⁷ and financial management¹⁸ arrangements.
- 6.2. Project disbursements will be contingent on verification of fulfillment of milestones, in accordance with the means of verification agreed upon between the CUBO and IDB LAB. The first disbursement will be contingent on fulfillment of the conditions

¹⁷ Link to the Policy: [Procurement of Works and Goods Policy](#)

¹⁸ Link to the document [Financial Management Operational Guidelines](#)

precedent, and the successive disbursements will be made provided that the following two conditions are met: (i) the IDB LAB has verified that the milestones have been achieved as agreed in the annual planning exercise; and (ii) CUBO has provided supporting documentation for at least 80% of the cumulative advances of funds.

- 6.3. Information Disclosure. In accordance with the Bank's Access to Information Policy, this document is available to the public.