

DOCUMENT OF THE INTER-AMERICAN BANK
MULTILATERAL INVESTMENT FUND

BRAZIL

**BIOECONOMY ECOSYSTEM HUBS: ENHANCING BIOECONOMY BUSINESSES IN THE
AMAZON**

(BR-G1015)

DONORS MEMORANDUM

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PROJECT SUMMARY
BRAZIL
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(BR-G1015)

The objective of the project is to increase the support to and strengthen local bioeconomy SMEs through the creation of Bioeconomy Ecosystem Hubs in the Legal Amazon Region, which includes trainings; networks to connect local actors and stakeholders, investment, and scalability mechanisms. This project will benefit 90 bioeconomy SME's which will see 20% in total sales increase and train and invest in 30 through the Impact Lab program. The project operation BR-G1015 will be executed by Impact Hub Manaus a business which will implement the Contingency Recovery Investment Grant/ CRIG (Component III), which is the object of this request for the IDB Lab Donor's Memo Committee. An extra funding has been requested to a co-financing committee¹ and will be executed by Impact Hub Brasil, a not-for-profit organization who will lead the implementation of the Technical Cooperation (Components I, II and IV).

Despite its immense economic and climate value, the area called Legal Amazon in Brazil has been witnessing a decline in the quality of health, education, basic sanitation, infrastructure, and access to energy whilst deforestation saw an increase of 9% in 2020². When compared to the rest of the country, the Legal Amazon shows a life expectancy which is 4.3 years less than the national average and sanitation is available to only 25% of the population³. Economically, the region accounted for 9.8% of the country's total GDP in 2018, a significant increase compared to 2008, but 38% below the national average, considering the geographic representation of the territory. Moreover, even though 79% of the population in the Legal Amazon is afro descendent, their income is 30% lower than their white counterpart and women have a 50% higher unemployment rate than men, despite having higher education levels.

There is a correlation between poverty levels and environmental degradation: the 20 municipalities with the largest areas of deforestation in the last three years in the Legal Amazon are also the poorest, the most unequal and present the lowest social progress. For years, the economic development model in the region was based on the extractive industry and for many people this was the main source of income. However, this subsistence model not only perpetuates local poverty (due to the low added value of the product), but it also degrades the environment, and it is a risk for the generations to come. At the same time, support, and investment for local bioeconomy small and medium enterprises (SME's), which can be a drive for development, is lacking. In 2021, Impact Hub Manaus carried out a mapping in all the states of the Legal Amazon to understand how to be more effective working with training, investment, and business monitoring in the Region. During this journey, it was found that 81.6% of the mapped businesses are

¹ The Donors' No Objection for this co-financing is being processed and is expected to be obtained after the approval of the IDB Lab portion. Therefore, an increase in funds will be processed for the approval of this portion of the project, which will be approved by the corresponding authority in IDB Lab.

² <http://www.obt.inpe.br/OBT/noticias-obt-inpe/estimativa-de-desmatamento-por-corte-raso-na-amazonia-legal-para-2020-e-de-11-088-km2>

³ https://amazonialegalemdados.info/dashboard/perfil.phpregiao=Amaz%C3%B4nia%20Legal&area=Sa%C3%BAde__67&indicador=TX_IBGE_EXPECTATIVA_VIDA_UF__67

seeking investments and only 12.2% have already had access to some type of third-party investment.

Hence, this project seeks to test a local sustainable economic development model in the Legal Amazon by going beyond what is offered by other initiatives to supporting bioeconomy businesses using articulated actions that approach business challenges, which include poor knowledge, restricted access to investments and limited entrepreneurial ecosystem, in a holistic way.

ACRONYMS AND ABBREVIATIONS

DNA	Diagnostic of Executing Agency Needs
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
MIF	Multilateral Investment Fund
BCS	Bank's Country Strategy
CBR	IDB Group Country Office in Brazil
CFO	Chief Financial Officer,
CRIG	Contingent Recovery Investment Grant
DICI	Integrity and Institutional Capacity Diagnostic
DNA	Diagnostic of Executing Agency Needs
EA	Executing Agency
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IDB Lab	Multilateral Investment Fund
IDB Invest	Inter-American Investment Corporation
LAC	Latin America and the Caribbean
NGO	Non-Governmental Organization
NRTC	Non-Reimbursable Technical Cooperation
PSR	Project Status Report
R\$	Brazilian Reals
SDG's	Sustainable Development Goals
SME's	Small and Medium Enterprises

PROJECT INFORMATION

BRAZIL

BIOECONOMY ECOSYSTEM HUBS: ENHANCING BIOECONOMY BUSINESSES IN THE AMAZON

(BR-G1015)

Country and Geographic Location:	Brazil, Legal Amazon: States of Amazonas, Acre and Rondônia		
Executing Agency:	Impact Hub Manaus (the brand name of Centro de Impacto Consultoria em Gestao Empresarial Ltda.) which will execute the Contingency Recovery Investment Grant (Component III).		
Focus Area:	Knowledge Economy		
Coordination with Other Donors/Bank Operations:	The project will coordinate with IDB's operations BR-L1603, BR-T1537 - Bioeconomy Program for Amazonia, and with IDB Lab's operations RG-Q0093, RG-G1033 - Amazonia Regenerate Accelerator and Investment Trust		
Project Beneficiaries:	The main beneficiaries are 33 bioeconomy SME's, focusing on women and afro and/or Indigenous descendants. It is expected that a further 90 bioeconomy SME's will also benefit from the project's activities. As a result, 246 entrepreneurs will directly benefit from the program (considering that at least 2 entrepreneurs from each bioeconomy SME's will participate of the activities).		
Financing:	Contingent Recovery Investment Grant (CRIG) BR-G1015	US\$ 350,000	22%
	TOTAL IDB LAB CONTRIBUTION:	US\$ 350,000	
	Non- Reimbursable Technical Cooperation (NRTC) other co-financing ⁴	US\$ 586,000	36%
	Counterpart:	US\$ 670,000	42%
	TOTAL PROJECT BUDGET:	US\$ 1,606,000	100%
Execution and Disbursement Period:	36 months of execution and disbursement for the CRIG and the NRTC		
Special Contractual Conditions:	<p>Conditions prior to the first disbursement of the NRTC and the CRIG will be, to the Bank's satisfaction: (i) designation of the project manager, (ii) selection of a dedicated employee to act as project coordinator, and (iii) the external donor's co-financing commitment agreement for the amount indicated in the budget.</p> <p>In addition, prior to the first disbursement of the CRIG component, Impact Hub Manaus will present to the Bank's satisfaction: (i) financial statements as of the date of the last closed month, (ii) evidence of compliance with applicable financial and operating conditions</p>		

⁴ The Donors' No Objection for this co-financing is being processed and is expected to be obtained after the approval of the IDB Lab portion. Therefore, an increase in funds will be processed for the approval of this portion of the project, which will be approved by the corresponding authority in IDB Lab.

	<p>(covenants), (iii) contracting plan for the use of the resources requested, (iv) a signed promissory note for the amount requested. Within 30 days following the first disbursement, the Executing Agency will engage an AML/CFT expert acceptable to IDB Lab to conduct an assessment of the AML/CFT⁵ risks presented by the company's operations.</p> <p>Prior to the second disbursement of the CRIG component: Impact Hub Manaus will also have to present evidence of: (i) the AML/CFT expert delivery of a report describing its key conclusions and proposing an action plan for the Executing Agency to adopt AML/CFT controls consistent with industry best practices for similar companies, (ii) have used at least 90% of the resources disbursed by IDB Lab in the items defined in the contracting plan, and (iii) have contributed a counterpart at least equal to the amount disbursed by IDB Lab.</p> <p>Prior to the third disbursement, (i) the Executing Agency will commit to implement the action plan prepared by the expert based on a schedule agreed between IDB Lab and the Executing Agency, (ii) have used at least 90% of the resources disbursed by IDB Lab in the items defined in the contracting plan, and (iii) have contributed a counterpart at least equal to the amount disbursed by IDB Lab.</p> <p>Failure to comply with these conditions – including the implementation commitments – will result in a suspension of the third disbursement and may constitute a material breach of the financing agreements.</p>
Recovery of the Contingent Recovery Investment Grant	Impact Hub Manaus will be subject to repay the recovery amount, if it meets the Triggering Milestone measured during the Recovery Period. The triggering Milestone is reached when Impact Hub Manaus's annual gross income is equal to or greater than US\$1,367,000
Recovery amount	The amount disbursed under the CRIG component, less the impact incentive.
Repayment Mechanism	If the Triggering Milestone is met Impact Hub Manaus is obligated to make up to 6 semi-annual equal repayments to IDB Lab for 36 months, starting in the first repayment date, which occurs after Impact Hub Manaus meets the Triggering Milestone.
Impact Incentive	In the event that Impact Hub Manaus demonstrates that it has met the social impact targets defined in the Donor Memorandum (poor and vulnerability), the amount to be repaid to IDB Lab will have a deduction of up to US\$70,000, not to exceed 20% of the disbursed amount (see impact incentives paragraph).
Environmental and Social Impact Review	The project has been reviewed on October 4, 2022, in accordance with the IDB's Environmental and Social Policy Framework (GN-2965-21). The NRTC has been categorized as C. The CRIG has been categorized as FI-3.
Unit responsible for disbursements	LAB/CBR

⁵ Anti-Money Laundry / Combating the Finance of Terrorism

I. The Problem

A. Problem Description

- 1.1 **Social - Economic Context of the Legal Amazon:** Despite its immense economic and climate value, the area called Legal Amazon⁶ in Brazil has been witnessing a decline in the quality of health, education, basic sanitation, infrastructure, and access to energy. When compared to the rest of the country, the Legal Amazon shows a life expectancy which is 4.3 years less than the national average and sanitation is available to only 25% of the population⁷. Economically, the region accounted for around 10% of the country's total GDP in 2018, a significant increase compared to 2008, but 38% below the national average, considering the geographic representation of the territory. Historically, the efforts to economically develop the region have either been based on extractive activities or manufacturers, as occurred with the creation of the Manaus free zone in the 1950's. A structured economic development mechanism aligned with the protection and restauration of the rainforest is yet to be widely implemented.
- 1.2 **Socio-economic inequality in the Legal Amazon:** the average income of afro descendants in the Legal Amazon is 30% lower when compared to the white population in the region⁸. Women unemployment is nearly 50% higher than men's and their income is 80% lower, despite having acquired higher education levels⁹.
- 1.3 **Deforestation and environmental degradation in the legal Amazon:** from August 2021 to July 2022, 10,781 km² was deforested. This was the largest deforested area in the last 15 years¹⁰. It was the second consecutive time that deforestation exceeded 10,000 km² in the same period. It was also the fourth time in a row that the deforestation reached the highest level since 2008.
- 1.4 **Correlation between social-economic development and deforestation and environmental degradation in the Legal Amazon:** There is a relationship between deforestation and poverty levels as demonstrated by the Social Progress Index (IPS)¹¹. According to the study, the 20 municipalities with the largest areas of deforestation in the last three years had an average IPS of 52.38, 21% lower than the Brazilian index of 63.29, and lower than the Amazon regional index of 54.59. Another fact in the relationship between deforestation and low social progress is that among the 15 municipalities with the

⁶ The concept of Legal Amazon was established by the Brazilian government as a way of planning and promoting the social and economic development of the states of the Amazon region, which historically share the same economic, political, and social challenges. The Legal Amazon is divided into two parts: the Western Amazon, made up of the States of Amazonas, Acre, Rondônia and Roraima, and the Eastern Amazon, made up, by exclusion, of the States of Pará, Maranhão, Amapá, Tocantins and Mato Grosso: https://geofp.ibge.gov.br/organizacao_do_territorio/estrutura_territorial/amazonia_legal/2020/Mapa_da_Amazonia_Legal_2020.pdf

⁷ According to the Legal Amazon Platform data (DataSUS, IBGE, INEP and PNAD)

⁸ <https://amazonia2030.org.br/desigualdades-no-mercado-de-trabalho-por-raca-evidencias-para-a-amazonia-legal/>

⁹ <https://amazonia2030.org.br/desigualdades-no-mercado-de-trabalho-por-genero-evidencias-para-a-amazonia-legal/>

¹⁰ The data are from the Deforestation Alert System (SAD) of the Instituto do Homem e Environment of the Amazon (Imazon).

¹¹ The IPS is an internationally recognized index created in 2013 to analyze the social and environmental conditions of countries, states, and municipalities. Conceived from the understanding that development indices based only on economic indicators are insufficient, the IPS exclusively analyzes socio-environmental variables to generate a score from 0 to 100, from the worst to the best.

worst IPS in the region, 4 are strongly associated with illegal mining, illegal logging, and social conflicts¹². The reason given for this correlation is that for years the economic development model was based on extractive industries as the main source of income.

- 1.5 **Bioeconomy as gateway to social-economic development and forest preservation:** It is estimated that over 30% of global GDP is dependent on natural resources and services derived from it such as tourism. In a global analysis, from 2018, showed that sustainable food and land-use business models could be worth up to an additional US\$ 2.3 trillion per year and provide over 70 million new jobs by 2030¹³.
- 1.6 **Lack of knowledge, support, and training for the bioeconomy SMEs in the Legal Amazon. Bioeconomy SMEs do not have sufficient** access to opportunities and benefits. They also lack adequate skills on bio-based production methods, processes, and business management. In addition, the implementation and acceptance of the bioeconomy and its products require a change in the mindset and the local knowledge due to the isolated and remote locations. In 2021, Impact Hub Manaus carried out a mapping in all the states of the Legal Amazon to increase the effectiveness of training, investment, and business in the Region. At the time it was found that 59% of the bioeconomy SME's need training, mentorship, and management of their businesses.
- 1.7 **Restricted investments and access to finance.** Adding to the problem is also a lack of investable businesses and high transaction costs as well as low access to finance across all stages of business development, which leads to a disconnect between risks and returns¹⁴. Although small businesses can be a drive for local development, support systems and access to finance are insufficient. In the same mapping conducted by Impact Hub Manaus (2021) 82% of the mapped bioeconomy SMEs were seeking investments and only 12% had already access to some type of third-party investment¹⁵. In addition, 43% of the bioeconomy SME's stated finance as the main need for their business and that they would use it for the infrastructure, human capital, and marketing.
- 1.8 **Limited knowledge sharing spaces and involvement of different stakeholders.** There is an opportunity to develop an ecosystem that could advance and promote entrepreneurial activities in terms of experiments and demonstrations, knowledge development involving learning activities, knowledge exchange through networks and across value chains, and market formation involving activities that contribute to the creation of a demand. It would also facilitate resource mobilization, and the allocation of financial and human capital, and support from advocacy coalitions to promote bioeconomy. With only 8% of environmental impact businesses being present in the Legal Amazon there is a need to foster local hubs of bioeconomy business ecosystems.

¹² <https://imazon.org.br/imprensa/municipios-que-mais-desmatam-tem-pior-qualidade-de-vida-na-amazonia/>

¹³ A call for an integrated framework for the bioeconomy in Latin America and The Caribbean region - <https://blogs.iadb.org/sostenibilidad/en/a-call-for-an-integrated-framework-for-the-bioeconomy-in-latin-america-and-the-caribbean-region/>

¹⁴ A call for an integrated framework for the bioeconomy in Latin America and The Caribbean region: <https://blogs.iadb.org/sostenibilidad/en/a-call-for-an-integrated-framework-for-the-bioeconomy-in-latin-america-and-the-caribbean-region/>

¹⁵ loan, equity, angel investment, etc.

II. The Innovation Proposal

A. Project Description

- 2.1. **The objective of the project** is to increase the support to and strengthen local bioeconomy SMEs through the creation of Bioeconomy¹⁶ Ecosystem Hubs in the Legal Amazon Region, which includes training, networks to connect local actors and stakeholders, investment, and scaling mechanisms.
- 2.2. **Defining Bioeconomy:** This project considers as *Bioeconomy* any economic activity based on the use of natural renewable biological resources, from both land and ocean, to obtain food, materials, and energy in a sustainable way without compromising their availability for future generations.
- 2.3. **The project's theory of change** is that in order to mitigate¹⁷ the effects of climate change, it is necessary to reduce deforestation and biodiversity degradation, and in a region where this is a source of income, it is necessary to demonstrate that the forest has more value remaining than being removed. This is possible through the development of Bioeconomy businesses, a concept that entails any economic activity based on the use of renewable natural biological resources, both terrestrial and oceanic, to obtain food, materials, and energy in a sustainable way, without compromising their availability for future generations. Through creating Bioeconomy Ecosystem Hubs, new possibilities for local development can be created, respecting traditional knowledge, aligned with technology and innovation, and involving the communities. By generating income and developing solutions from using natural renewable biological resources, this project will demonstrate the potential and value the standing forest has and therefore, contribute to forest conservation and climate change mitigation.
- 2.4. **The project's innovation:** this Project proposes a model that goes beyond the classical acceleration programs. Instead of providing an intensive, individual and time-limited business support, aiming to get them ready for investment very quickly, this project proposes the strengthening of local bioeconomy entrepreneurs (through workshops, mentorship, access to investment, etc.) that is based on the entrepreneurs' needs (rather than a one-size-fits -all solution) and articulate an ecosystem so that local interaction and cooperation can be created as well as knowledge enhancement and networking. Moreover, by pushing for ecosystem building, a mechanism widely recognized as essential for the development of technology-based enterprises such as startups, but which has not been applied when it comes to the development of bioeconomy SMEs in the Legal Amazon, the project contributes to improving environmental governance. Ecosystems are being defined here as the grouping of different stakeholders (government, academia, NGO's, businesses, etc.) with different but complementary skills which link their capabilities to create value for final users. It is a concept like value-chains, but it goes further by also including a broader range of horizontally related actors who create value to each other. This is to say that although the target beneficiaries are bioeconomy SMEs in urban areas, by creating local

¹⁶ This project will consider as Bioeconomy any economic activity based on the use of natural renewable biological resources, from both land and ocean, to obtain food, materials, and energy in a sustainable way without compromising their availability for future generations. <https://blogs.iadb.org/sostenibilidad/en/a-call-for-an-integrated-framework-for-the-bioeconomy-in-latin-america-and-the-caribbean-region/#:~:text=Bioeconomy%20is%20any%20economic%20activity,their%20availability%20for%20future%20generations.>

¹⁷ Climate change mitigation refers to efforts to reduce or prevent the emission of greenhouse gases. <https://www.unep.org/pt-br/explore-topics/climate-action/o-que-fazemos/mitigacao>

ecosystems, the project expects a spillover effect of value creation which will also benefit bioeconomy producers at the beginning of the value-chain (usually rural producers), local government, education institutions, etc.

- 2.5. **Geographic location:** The project will be implemented in 3 cities: Tefé (State of Amazonas), Ji-Paraná (State of Rondônia) and Rio Branco (State of Acre). These cities have been chosen due to the high level of deforestation⁵ and because they function as business hubs and urban centers in the region. In these cities, there are already some business movements, but they still need to be boosted and intentionally transformed into sustainable businesses. Moreover, in the case of Rio Branco, a state capital, there is also an opportunity to stimulate the development of innovation and entrepreneurship in a third capital in the northern region (beyond Manaus - Amazonas and Belém - Pará).
- 2.6. In addition, the 3 chosen cities have a high level of poverty and social vulnerability. In 2019, Tefé had a GDP per capita of BR\$ 17,092 (approx. US\$ 3,197), Ji-Paraná of BR\$ 29,332 (approx. US\$ 5,487), and Rio Branco of BR\$ 22,448 (approx. US\$ 4,200), while the average GDP per capita in Brazil, for the same year, was BR\$ 35,161 (approx. US\$ 6,577). In addition, these cities also show a percentage of the population with a monthly per capita income of up to ½ minimum wage is 43% in Tefé, 34% in Ji-Paraná and 37% in Rio Branco, while the national average is 27%¹⁸.
- 2.7. **Beneficiaries:** this project's direct beneficiaries are 33 bioeconomy SME's, 30 of which are in their initial stages and will go through the Impact Lab's capacity building activities and 3 in a more advanced stage and are ready to be invested in directly without going through the capacity building process but still in need of mentorship. Moreover, this project will focus on supporting traditional communities, focusing on women and afro descendants and Indigenous people - 70% of the businesses will be led by these groups or have them as co-founders. It is also expected that local government, the local business community and NGO's and educational institutions will also benefit indirectly from the project.
- 2.8. **Financing and Execution structure:**
 - a. The entire project is composed of four different components which are going to be financed by different funds and executed by different partner organizations. The finance and implementation are as follows:
 - b. Components I, II and IV are part of a Non-Reimbursable Technical Cooperation which is going to be implemented by Impact Hub Brasil (this is the brand name of the *Associação Hub Brasil*).
 - c. Component III is a Contingency Recovery Investment Grant (CRIG) which will be Implemented by Impact Hub Manaus (the brand name of Centro de Impacto Consultoria em Gestao Empresarial Ltda). This component is expected to be financed by the IDB Lab.
- 2.9. **About the Executing Agency:** Impact Hub Manaus has been present in Manaus for five years, with the mission of "Creating paths that drive new ways of doing business, generating great positive changes" and with the vision of "Being recognized locally, nationally and internationally, by 2023, as a catalyst for positive change in and for

¹⁸

<https://cidades.ibge.gov.br/brasil/panorama>
<https://censo2010.ibge.gov.br/sinopse/index.php?dados=P21&uf=00>

and

Amazonas, through collaboration and innovation". During these 5 years the organization has:

- a. Become a reference in Impact Entrepreneurship.
 - b. Created a network of 400+ members - innovation, impact, technology, creative economy, and traditional entrepreneurs.
 - c. Accumulated more than 400+ deals opened in the Hub.
 - d. Executed more than 25 projects and consultancies.
- 2.10. Impact Hub Manaus is the executing agency of the call "Elos da Amazonia" a national call for proposals, financed by the Institute for Conservation and Sustainable Development of the Amazon (Idesam) and which aims to find and recognize solutions for forest restoration, focused on the Brazilian nut and vegetable oil chains. The project also receives funding from the Partnerships for Forests (P4F), a UK government program and the German Cooperation for Sustainable Development, through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. On its second edition, the 5 best solutions from each chain (oil and nuts) are part of the formation cycle of biobusiness communities, receiving support for the preparation of projects for investment via R&D and up to R\$700,000.00 (US\$ 140,000) in direct resources or services.
- 2.11. Impact Hub Manaus is also the executing agency of the project Lab de Impacto a pre-acceleration program that seeks to develop businesses in the Legal Amazon in the Pilot and MVP stages, giving access to specific mentorships, market connection, seed money from US\$6,000 to US\$20,000 and impact training. They also create connections with funds and accelerators so that at the end of the process these businesses can access new investments and advance their stage.
- 2.12. Impact Hub Manaus will establish an implementation unit to execute project activities and manage resources effectively and efficiently. Impact Hub Manaus will also be responsible for providing progress reports on project implementation. Details on the structure of the execution unit and reporting requirements are in the project technical files. During the implementation of the project, Impact Hub Manaus will keep IDB Lab well informed about any advancement and will coordinate meetings among all parties whenever it is necessary.
- 2.13. **Integrity Review.** The Project Team, with the support of OII, conducted integrity due diligence (IDD) in accordance with the Integrity Due Diligence Guidelines (OP-474-1) on the Project and found heightened integrity and related reputational risks as well as mitigating factors. The integrity and related reputational risks presented by this Project are within the appetite of IDB Lab for such risks. For more details see the Integrity [Annex IV](#).
- 2.14. **The different steps of the project are:**
- a. Strengthen the Amazon biodiversity business ecosystem and the culture of innovation and impact in the Legal Amazon Region generating connections and developing and investing in 33 SMEs over time, 30 of which will have gone through the Impact Lab methodology (*explained below*).
 - b. Influence the generation of employment and income in the region, combining conservation and socio-environmental development, allowing for an increase in the quality of life and mitigation of the effects of climate change.
 - c. Involve traditional communities, with a lens towards gender and ethnicity.
 - d. Strengthen the Entrepreneurial Ecosystem of these 3 cities for 3 years, generating knowledge, legacy, and sustainability for after the program.

- 2.15. This project is based on the following premises: 1) involvement of traditional people and communities¹⁹; 2) conservation of the biodiversity present in the Amazon; and 3) generation of income that brings sustainable development to the Region.
- 2.16. This ecosystem will be led by local agents trained by Impact Hub Brasil whose role is to create environments for these entrepreneurs to connect, exchange knowledge and more importantly, do business with each other.
- 2.17. Impact Hub Manaus will be implementing an *assisted investment* which entails investment provision with technical assistance to the selected bioeconomy entrepreneurs, assisting them with their challenges and ensuring they are on the right track to repayment.
- 2.18. Impact Hub Brasil and Impact Hub Manaus have vast experience in connecting entrepreneurs and innovators to large organizations, partners, investors, and the public sector so that this ecosystem creation leads to a more sustainable society. In this project, it will be their goal to create long-term economic opportunities in the local communities by ensuring that people and resources are connected and working together to develop new approaches and solutions for innovation and entrepreneurship.

B. Components:

Component I. Impact Lab (IDB Lab: US\$ 0; Co-financing: US\$137,893; Counterpart: US\$ 0)

- 2.19. **The objective** of this component is to provide a supporting program that will develop 30 Amazon bioeconomy SMEs, providing training, access to specific mentorships (based on the businesses' needs) and market connection. The Impact Lab methodology combines cutting-edge elements from the world of business incubators and accelerators and will seek to develop Amazon biodiversity businesses in the Pilot, MVP, and Scale stages. After going through a selection process, businesses will undergo a diagnosis that will help Impact Hub Brasil with the support of Impact Hub Manaus to better understand their needs and thus develop group capabilities that consider the needs of the group. In addition, businesses will have access to specific mentorships, with mentors who can be entrepreneurs from the network of Impact Hub Brasil, Impact Hub Manaus and the IDB Lab. Connection with venture capital funds, accelerators and potential clients will also be facilitated so that these businesses can access new investments and advance their stage.
- 2.20. **The expected outputs of this component** are: (i) report with a diagnosis of the Bioeconomy SME's; (ii) mentorship program structured and implemented; (iii) implementation of a series of training modules; and (iv) 30 bioeconomy SME's businesses that have successfully completed the Impact Lab Supporting Program.

¹⁹Item I Art. 3rd Decree 6.040 / 2007 define traditional peoples and communities as culturally differentiated groups that recognize themselves as such, that have their own forms of social organization, which occupy and use territories and natural resources as a condition for their cultural, social, religious, ancestral, and economic reproduction, using knowledge, innovations and practices generated and transmitted by tradition.

Component II. Impact Ecosystem (IDB Lab: US\$ 0; Cofinancing: US\$0; Counterpart: US\$ 172,603).

- 2.21. **The objective of** this component is to foment the development and creation of impact ecosystem through mapping the communities, building relationships with local actors, training impact agents, developing entrepreneurial awakening actions and creating small physical Hubs to serve as a reference for local entrepreneurs. Impact Agents will be responsible for implementing this component. Through a mapping of local bioeconomy businesses, it will be possible to understand who the entrepreneurs and enterprises are so that the interaction between them and various local sectors is stimulated, thus improving dialogue and cooperation. For this to happen, lectures, conversation circles, round tables, working groups, collaborative events, and knowledge exchange workshops where the SME's selected for the Impact Lab can share their learnings with other local bioeconomy businesses will be organized. Public entities, non-governmental organizations and educational institutions will also be widely encouraged to participate either passively, that is, as a listener, or actively, either by speaking, offering workshops and/or organizing events themselves. In addition, physical hubs will be created in partnership with local actors to serve as a reference for bioeconomy SME's, supporting businesses, even those that are not part of the Impact Lab. Also, the Impact Ecosystem will not only focus on helping existing bioeconomy businesses, but it will also stimulate the emergence of more local bioeconomy businesses or transform those that have the potential to be a bioeconomy business.
- 2.22. **The expected outputs of this component** are: (i) bioeconomy SME's mapping; (ii) implementation of ecosystem building actions; (iii) physical Bioeconomy Ecosystem Hubs created and running (iv) training for 9 impact agents.

Component III. Impact Investment (IDB Lab: US\$ 350,000; Cofinancing: US\$0; Counterpart: US\$ 355,000)

- 2.23. **The objective of** this component is to provide financial support to the business developed through Impact Lab and local champions. Through convertible debt or loan, it is expected that Impact Hub Manaus will be investing in 33 businesses, 11 in each city, throughout the implementation of the project. There will be two ranges of investment tickets:
- (1) US\$ 7k – 25k: the 30 businesses who go through the Impact Lab will receive seed funding right after completing the program. An investment plan for each of the SME's invested will be designed and the value of the investment will be decided by the executing agency and the business and will be based on the business' needs.
 - (2) US\$ 50k – 120k: 3 businesses who are in a more advanced stage. These businesses can either be champions that are key to the ecosystem development or, it is expected that throughout the 3 years of the implementation of the project, there will be some champions who will move from needing a seed investment to needing a more robust investment. These businesses will have preference in receiving this higher ticket – note that this also implies that the same business might benefit twice from the Impact investment throughout the project although with different tickets.
- 2.24. A selection and due diligence mechanism will be designed and implemented by the executing agency after being approved by the IDB Lab team. This selection mechanism will apply to both Impact Lab (component I) and Impact Investment (component III).

- 2.25. All Bioeconomy SMEs supported by the project will have to contribute to mitigation and/or adaptation to climate change since 100% of the resources of component 3 will have to be allocated for this purpose.
- 2.26. In addition, the Alumni Program will be created, which consists of monitoring these entrepreneurs after the Impact Investment for 6 months with monthly meetings and then for 3 years or until repayment with quarterly meetings. Connections with funds and accelerators will also be generated so that at the end of the process these businesses can access new investments and advance their stage.

Component IV. Knowledge and legacy (IDB Lab: US\$ 0; Cofinancing: US\$448,107; Counterpart: US\$ 142,397)

- 2.27. **The objective of** this component is to communicate, systematize, document, and promote the legacy of the mechanisms and methodologies used during the execution of the project, considering the local reality and the focus on the development of bioeconomy ecosystems, demonstrating that these actions can generate a development model for territories. This document can be later be adopted as public policy at the territory in which the project was implemented (expanding the project to other local bioeconomy SME's) or the model can be replicated in other cities, making the necessary adaptations that meet local demands, including expanding to the Amazon beyond Brazil, in short, generating a model to be adopted by policymakers throughout the territory of the Amazon.
- 2.28. This component will focus on monitoring, generating, and sharing knowledge, considering the long-term sustainability of the program, and generating tangible legacies for the territories. Communication channels will be strengthened, information space between actors will be created and co- creation of solutions to the challenges the ecosystem might face stimulated through hackathons and connection with the public and private sector. The idea is to not only have Impact Hub Brasil and Impact Hub Manaus's input and understanding of the project but to constantly collect feedback from the local ecosystem and talk to stakeholders. That is, involve them throughout the implementation of the project whilst taking into consideration their inputs. This component is strategic in the generation of knowledge and relationships for the scalability and testing of this model.
- 2.29. **The expected outputs** are (i) the creation of a guidance report and (ii) signed cooperation agreements between local governments and the executing agency to upscale the program at the end of it.

C. Conditions for the Contingent Recovery Investment Grant

- 2.30. **Period of Execution and Disbursement.** The project will be executed over 3 years, counted from the date of signature of the Agreement. During this period, the Executing Agencies are required to report progress in the PSR.
- 2.31. **Disbursement Mechanism.** Resources will be disbursed in up to three disbursements, for a maximum of US\$200,000 each disbursement for a maximum cumulative total amount of US\$350,000 to be made during the Disbursement Period, at Impact Hub Manaus's request, against the signing of a promissory note conditioned to the triggering milestones and subject to compliance with the conditions for disbursement, as well as others that may be requested by IDB Lab.

- 2.32. **Conditions for the disbursement of Contingent Recovery funds.** In order to make disbursements, the Executing Agency must report to IDB Lab the fulfillment of the conditions agreed at the time of the disbursement request, as follows:
- A) For all disbursements, a request accompanied by: (i) general conditions for the Disbursement of the Contribution detailed in the Agreement, (ii) financial statements as of the date of the last closed month, (iii) Report and compliance with financial and operating conditions prior to disbursement, (iv) no objection to the updated and specific contracting plan for the use of the resources requested, (v) promissory note signed for the requested amount, conditional upon compliance with the triggering milestones signed for the amount requested, and (vi) having used IDB Lab NRTC for a value at least 50% of the cumulative CRIG resources requested previously.
 - B) For the second and third disbursements, in addition, the EA will have to present evidence of: (i) having used at least 90% of the resources disbursed by IDB Lab in the items defined in the contracting plan, and (ii) having contributed a counterpart at least equal to the amount disbursed by IDB Lab.
- 2.33. Recovery of the Contingent Recovery Investment Grant. Impact Hub Manaus will be subject to repay the recovery amount, if it meets the Triggering Milestone measured during the Recovery Period and in accordance with the stipulations. The triggering Milestone is reached when Impact Hub Manaus's annual gross income is equal to or greater than US\$1,367,000.
- 2.34. The repayment period lasts 36 months and begins on the first repayment date immediately following the date of the last disbursement.
- 2.35. The Recovery amount will be calculated as agreed in the definition of the Triggering Milestone and after application of the Impact Incentive. Recovery may be made regardless of whether there has been a partial cancellation or partial disbursement of the Contribution.
- 2.36. Impact Hub Manaus is obligated to make up to 6 semi-annual equal repayments to IDB Lab during the recovery period, starting in the first repayment date, which occurs after Impact Hub Manaus meets the Triggering Milestone. Repayment dates are June 15, and December 15.
- 2.37. Each semiannual repayment amount will be calculated by dividing the total amount due divided by the number of payments left in the repayment period, at the time of the calculation.
- 2.38. The triggering milestone will be applied 60 days prior to the first semiannual repayment date, and again 60 days prior to each of the following semiannual repayment dates if not met, until compliance or the end of the contingency period, whichever comes first.
- 2.39. If Impact Hub Manaus demonstrates that it has met the social impact targets defined in the Donor Memorandum (poor and vulnerability), the amount to be repaid to IDB Lab will have a deduction of up to US\$70,000, not to exceed 20% of the disbursed amount (see impact incentives paragraph).
- 2.40. **Impact Incentives.** If Impact Hub Manaus reaches 70% or more bioeconomy SMEs led and/or co-founded by poor, low-income or vulnerable people that complete the Impact Lab (capacity building program designed by Impact Hub Manaus) it will receive a discount of up to US\$70,000 maximum.
- 2.41. The purpose of the project is to increase the support and strengthen local bioeconomy SMEs through the creation of Bioeconomy Ecosystem Hubs in the Legal Amazon Region. It is expected that the project will foster local economic development, preserve the forest,

and strengthen communities and families. The expected results will be I) At least 90 bioeconomy SME's have benefited from the activities of the project; II) At least 9 local stakeholders have become a partner of the project and III) Average increase of 20% in total sales value of the bioeconomy SME's who have received the Impact Investment.

- 2.42. The results matrix (see annex I) indicators will be monitored every semester by IDB Lab and inserted in the PSRs accordingly.

III. Alignment with IDB Group, Scalability, and Risks

A. Alignment with IDB Group

- 3.1 The project is aligned with several IDB Group strategies such as Institutional Strategy (AB-3190-2) and Corporate Results Framework 2020-2023 (GN-2727-12), contributing to the challenges of (i) social inclusion and equality, when aims to strengthen SME's led by women and traditional communities, mainly afro-descendants and indigenous; (ii) productivity and innovation, when aims to directly support 33 SME's but also implement activities that will involve other bioeconomy SME's in the municipalities where the project will be implemented and (iii) climate change and environmental sustainability, when it aims to influence the reduction of deforestation and environment degradation by fomenting bioeconomy businesses. Also, the project's main goal, which is to increase the support to and strengthen local bioeconomy SMEs through the creation of Bioeconomy Ecosystem Hubs in the Legal Amazon Region, which includes trainings; networks to connect local actors and stakeholders, and scalability mechanisms, aligns with the strategy with Brazil 2019-2022 (GN-2973) in the priority area of social inequalities' reduction, and the specifics goals are related to crosscutting themes such as, (i) gender and diversity, when focus actions to improve bioeconomy SME's led and/or co-founded by women, African and indigenous descendent, and (ii) environmental sustainability when aims to measure demonstrate the value of the standing forest by focusing on the development of bioeconomy SME's. Additionally, 37% of the total operation's resources (IDB Lab resources) are invested in climate change mitigation and/or adaptation activities, according to the joint methodology of the Multilateral Development Banks. These resources contribute to the IDB's climate financing goal (30% of the volume of approvals annually).
- 3.2 The project is of great interest CSD/CCS and it will complement CCS's portfolio in Brazil, specifically to (i) the Bioeconomy Program for Amazonia (BR-L1603) currently in preparation with Banco da Amazonia (BASA) which aims to mobilize private investment in bio business and forest management, especially provide financing and incentives to promote the appreciation of natural capital and forestry assets in Brazilian markets, and;(ii) the Bioeconomy Program for Amazonia – BASA Institutional Capacity and Technical Assistance to Bio-businesses (BR-T1537), currently under analysis, which includes to expand nature-based productive activity in the Amazon, to support growth decoupled from environmental degradation, especially to encourage inclusive supply of credit to local bio-businesses and to strengthen capacities of local bio-businesses to prepare and fund projects within the bioeconomy. The project is also aligned with IDB Lab's operation Amazonia Regenerate Accelerator and Investment Trust (RG-Q0093, RG-G1033) which aims to structure a trust and an accelerator program to boost the regenerative economy in Latin America. The main goal for this initiative is to work together with ventures that are already operating with a Minimum Viable Product and prepare them to attract and absorb investments of USD1M+ into viable scalable business models. For this operation, this project can be a source of business pipeline of bioeconomy SME's that can get enough

traction after the project would qualify for a greater investment provided by Amazonia Regenerate.

- 3.3 This project contributes to SDG 5, Gender Equality, target 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life, SDG 8, Decent Work and Economic Growth, target 8.2, achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors; SDG 10, 10.2 by 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status and SDG 13, Climate Action, targets 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning and 13.b Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities.

B. Scalability and financial projections

- 3.4 There are 772 municipalities in the Legal Amazon in Brazil, and it is estimated that 40 million people live in the Amazon region. Impact Hub Brasil and Impact Hub Manaus have a track record of implementing 28 projects in Brazil, including supporting the government of São Paulo in its open government efforts. With IDB Lab's support, Impact Hub Brasil and Impact Hub Manaus will be able to pilot a local development model based on the articulation and strengthening of bioeconomy businesses through the creation of ecosystem hubs that can be then scaled to other municipalities in the Amazon region or can serve as a model for other local development projects.
- 3.5 Impact Hub Brasil and Impact Hub Manaus will scale the project results by involving the local government throughout the implementation of the project so that they can learn and incorporate in their activities after the project ends.
- 3.6 Scaling will also be enabled by increasing bioeconomy SME's access to finance via Impact Investing, which will provide an effective way for the SMEs to access finance.
- 3.7 As the SMEs go through the program, they can sell to more customers and reach other markets, with a capillarity of sales throughout Brazil. Impact Hub Brasil and Impact Hub Manaus also intend to use digital tools such as the "AmazonBConect" portal technology to be able to reach customers around the country. This can bring improvements to the SMEs on an ongoing basis. Another relevant point of scalability is the development of partnerships for extending the impact. Another relevant scalability strategy is to seek partnerships with the government, especially municipalities, which might be interested in adopting the model. The bioeconomy field has a latent demand, and the possibility of scale comes from the integration of tools and design of local development models that can be attentive to the needs of the local SME's, their customers, and stakeholders.
- 3.8 **Summary of Financial Situation.** Impact Hub Manaus is financially sustainable, in 2020 it had sales of R\$1,293,551 (about US\$249,000²⁰), and a net income of R\$130,090 (about

²⁰ At end of the year 2020 exchange rate of R\$5.1936 per US\$.

US\$25,000). In 2021, it had sales of R\$1,265,369 (about US\$227,100²¹), and a net income of R\$42,972 (about US\$7,700).

- 3.9 **Financial Projections.** Impact Hub Manaus plans a substantial growth in operations and reach a gross income of about R\$2,260,000 (about US\$422,400²²) in 2023, R\$2,486,000 (about US\$464,700 at current exchange rates) in 2024, and R\$2,735,000 (about US\$511,215 at current exchange rates) in 2025, with gross operational margins of 87,5% and operational net income between 16% and 18% for the first three years of the projections. Impact Hub Manaus will continue to come mainly from two sources of income, renting of working spaces for small companies, and services related to provide legal address and regulatory processes. Financial projections show that Impact Hub Manaus will generate enough liquidity to repay the CRIG resources to the IDB Lab.

C. Project and Institutional Risks

- 3.10 The project faces three major risks: social risk, market risk, and credit risk.
- 3.11 **The social risk** derives from potential local conflicts between bioeconomy entrepreneurs and people whose income derives from deforestation and environment degradation such as loggers, miners, etc. This risk will be mitigated by Impact Hub Brasil and Impact Hub Manaus's proven track record both in executing projects focused on the development of bioeconomy businesses within the Legal Amazon and experience dialoguing with multiple types of stakeholders such as local governments, NGO's, educational institutions, etc.
- 3.12 **The market risk** of the project derives from not managing to engage the bioeconomy SME's who have not been selected to the Impact Lab activities, in the ecosystem building activities such as events, workshops, roundtables, etc. As a mitigation to this risk, Impact Hub Brasil and Impact Hub Manaus will constantly dialogue with the local and non-selected bioeconomy entrepreneurs to understand their needs and design the Impact Ecosystem activities according to their needs and desires to attract their participation.
- 3.13 **The credit risk** of the project is related to the ability of the invested SMEs to pay back the investment. Access to bigger markets and logistics may increase the costs of the products, which may translate into cash flow issues for the invested SME's. A mitigation of the risk is the constant mentoring, support and follow ups that Impact Hub Brasil and Impact Hub Manaus will provide to SME's, even after the end of the project, and the presence of the Impact Agents locally during the project implementation, who will be able to assess the challenges faced by the SME's beforehand and seek to solve them accordingly.

IV. Instrument and Budget Proposal

- 4.1 The project has a total cost of US\$1,606,000 of which US\$350,000 (22%) will be provided by IDB Lab, US\$586,000 (36%) is being requested to the co-financing and US\$670,000 (42%) by Impact Hub Brasil and Impact Hub Manaus. IDB Lab funding includes a CRIG of US\$350,000.

²¹ At end of the year 2021 exchange rate of R\$5.5713 per US\$.

²² For the projections, the current exchange rate of R\$5.35 per US\$ is used.

- 4.2 The project includes the use contingent recovery investment grant of US\$350,000 given that the business model implemented by Impact Hub Manaus, could generate a capacity to repay the resources if the goals established in the term sheet are met (Annex VII). Thus, starting in the month 36 after the project approval when Impact Hub Manaus's gross sales reach US\$1,367,000, Impact Hub Manaus will repay to the IDB Lab in equal semiannual repayments until the end of the repayment period which will last 36 additional months starting at the date of the last disbursement.

Components	IDB Lab	Co-funding requested	Counterpart (US\$)		Total (US\$)
Activity	CRIG	NRTC	In Kind	Cash	
Component 1: Impact Lab		\$137,893			\$137,893
Component 2: Impact Ecosystem				\$172,603	\$172,603
Component 3: Impact Investment	\$350,000			\$355,000	\$705,000
Component 4: Knowledge and legacy		\$448,107		\$142,398	\$590,505
Total	\$586,000	\$350,000	\$670,000		1, 606,000
% of Total	36%	22%	42%		100%

V. Compliance with Milestones and Special Fiduciary Arrangements

- 5.1. **Disbursement by Results, Fiduciary Arrangements.** The Executing Agency commits to IDB Lab's standard results-based disbursement arrangements, procurement²³ and financial management policies²⁴ applicable to the private sector, consistent with the Financial Management Guide for IDB Financed Projects (OP27312) version June 12, 2019, and as specified in the "Milestone Management and Financial Monitoring Guide for IDB Lab and SEP Technical Cooperations".
- 5.2. **Results-based disbursements.** The Country Office of Brazil will monitor the Project. Monitoring will be undertaken in accordance with the performance and risk management policies (fulfilment of milestones) established by the IDB Lab in April 2008. Project disbursements will be contingent upon verification of the achievement of disbursement conditions detailed in this document. Achievement of those disbursement conditions does not exempt the Executing Agency from the responsibility of reaching the results matrix indicators and project's objectives.

²³ Link to the Policy: [Procurement of Works and Goods Policy](#)

²⁴ Link to the document [Operational Guidelines for Management of Milestones and Financial Supervision for MIF and SEP Technical Cooperation Projects](#)

VI. Information Disclosure and Intellectual Property

- 6.1. **Information Disclosure.** This document contains confidential information related to one or more of the ten exceptions to Access to Information Policy and will be initially treated as confidential and made available only to Bank employees. This document will be disclosed and made available to the public upon approval.
- 6.2. **Intellectual Property.** Impact Lab and Impact Ecosystem are technologies and methodologies developed by Impact Hub Brasil and Impact Hub Manaus. Intellectual property related to them will not be shared with the IDB Lab. Additionally, the intellectual property of this Project related to new functionalities developed with IDB funds and work financed by IDB Lab and the results obtained under the Project will be the intellectual property of the Executing Agency. The Executing Agency will grant a non-exclusive and royalty-free license to the IDB, including the rights of use, copy, dissemination, reproduction, and publication in any medium, of knowledge products resulting from the Project.