

The Brazilian Innovation Agency
2005

FINEP Research and Projects Financing





The largest Latin-American country, Brazil has an area of 8,5 millions of square kilometers housing more than 175 million people. In 2003, Brazil's GNP was US\$ 493 billions, with a per capita revenue of US\$ 2,789.00. Within the Brazilian economy, it is worth mentioning high-developed sectors such as agriculture and cattle breeding and a very complex industrial base. Besides, the country is the leader of Mercosul, an economic block joining Brazil, Argentina, Paraguay and Uruguay. Established in 1991, this block emerged as a free trade zone, but its major objective is to become a common market.

Technological innovation – as an instrument for the social and economic development – is one of the priorities of the Government of President Luiz Inácio Lula da Silva. This was emphasized through the Industrial, Technological and Foreign Trade Policy announced and launched in March 2004, in which FINEP has a crucial role.

Brief History

Financiadora de Estudos e Projetos — FINEP (Research and Projects Financing), also known as the Brazilian Innovation Agency, is a publicly owned company subordinated to the Ministry of Science and Technology — MCT. It was founded on July 24, 1967 with the purpose of financing scientific and technological research and graduate courses in Brazilian universities and research institutions, as well as research and development in companies. In 1971, FINEP became the Executive Secretary of the newly created Fundo Nacional de Desenvolvimento Científico e Tecnológico — FNDCT (Funding for Scientific and Technological Development).

Since its foundation, FINEP has had a double role: it provides grants to non-profitable institutions, such as universities and research centers, and it lends money to companies. FINEP has encouraged intense mobilization in scientific and business circles, funding the implementation of new research groups, the creation of specific programs, the growth of science and technology infrastructure, and the institutional consolidation of post-graduate activities. It has also stimulated the increase in supply and demand for technology, by mobilizing universities, research centers, consulting firms and contractors of services, products, and processes.

In recent years, FNDCT was reinvigorated with new sources of funds from the so-called Science and Technology Sectorial Funds. The ability to finance the entire Science, Technology, and Innovation – S, T&I system – by combining reimbursable and non-reimbursable funds, as well as fiscal incentives, has afforded FINEP a great capacity for inducing activities aimed at developing this field, essential in increasing Brazilian manufacturing industry's competitive edge.

S&T initiatives by business in partnership with universities, economically very successful, are also associated to FINEP funding, such as: the development of the Tucano aircraft by Empresa Brasileira de Aeronáutica – Embraer (the Brazilian Aeronautics Company), the forerunner of the company's aircraft as important items in the country's list of exports; numerous projects by Empresa Brasileira de Pesquisa Agropecuária — Embrapa (the Brazilian Agriculture Research Corporation), essential for the technological development of the Brazilian agricultural and cattle raising system, currently one of the most competitive in the world; Petrobras (the Brazilian Oil Company) projects, responsible for contributing towards mastering technology for deep-water oil exploitation, which has put the country on the way of self-sufficiency in this field.



Mission

To encourage and finance innovation, and scientific and technological research in business, universities, institutes of technology, research centers, and other public or private institutions, mobilizing funds and combining the instruments employed in the country's economic and social development.

General objectives

FINEP encourages and finances innovation and scientific and technological research, which might contribute to extend knowledge and/or generate positive impacts in Brazilian social and economic development, with a view to:

- extending and improving the National S, T&I System, encouraging the production of knowledge and the improvement of scientific and technological skills in the country;
- stimulating and supporting activities that encourage the expansion of innovation, generation, and adaptation capacity in technological and scientific knowledge, for the production of goods and services;
- cooperating towards success of the targets established by the Federal Government's public policies.

Areas of activity

FINEP acts in accordance with the policies set forth by the Ministry of Science and Technology, in strict cooperation with Conselho Nacional de Desenvolvimento Científico e Tecnológico — CNPq (National Council for Scientific and Technological Development). While CNPq provides scholarships and grants to individuals and research groups, FINEP supports S, T&I activities to institutions, public or private. FINEP's operating procedures are oriented towards:

- extending knowledge and skills to human resources in the National Science and Technology System;
- research, development, and innovation of products and processes in the business community;
- increasing quality and value-added of products, processes, and services in the domestic market, targeting improving the quality of life of the population and the selective replacement of imports;
- increasing competitive edge of products, processes, and services in the international market, with a view to increasing exports;
- promoting social inclusion and reducing regional contrasts;
- adding value to installed scientific and technological capacity to Brazil's natural resources.

S&T Sectorial Funds

The Science and Technology Sectorial Funds, created in 1999, are project financing instruments for domestic research, development, and innovation. Initially 15 Sectorial Funds were created. Among them, it is worth mentioning one that is directed at university-business cooperation, and another at supporting public higher education and research institutions' infrastructure. These funds originate from contributions according to companies' invoicing and/or from the earnings arising from the exploitation of natural resources belonging to the Federal Government.

With the exception of the Fundo para o Desenvolvimento Tecnológico das Telecomunicações – FUNTEL (Sectorial Fund for the Technological Development of Telecommunication), managed



by the Ministry of Communication, amounts from the remaining Funds are attributed to FNDCT and managed by FINEP, its Executive Secretary, in partnership with CNPq.

FINEP is the executive body responsible for the management of the Sectorial Funds under the orientation of the Managing Committees, which specify annual investment guidelines and plans, monitor implementation of action plans, and assess results. Participants of the Managing Committees include the Ministry of Science and Technology – MCT and other ministry representatives connected to the industries covered by each Fund, besides FINEP, CNPq, regulating agencies and scientific, technology, and business communities. This shared management ensures a clear and transparent process.

In general, Sectorial Funds are directed to selected projects by means of calls for proposals, which are published in the MCT, FINEP and CNPq websites. In special cases, funding may take place through requests, as determined by the Managing Committees.

Grants and loans

FINEP provides grants, i.e. non-reimbursable funds, and loans. FINEP supports every stage and dimension of the scientific and technological development cycle: basic research, applied research, product, service, and process innovation. FINEP also supports incubation of high-tech firms, implementation of technology facilities, structuring and consolidation of research processes, development and innovation in established companies, and market development. Non-reimbursable funds are granted with FNDCT funds, currently formed largely by S, T&I Sectorial Funds. They are intended for non-profit institutions, for programs and fields specified by the Funds' Managing Committees.

FINEP also supports the organization of events, and continuously accepts requests according to the terms and guidelines as displayed in its website.

Reimbursable loans are made with FINEP's own funds or through on-lending from other sources. Those businesses or organizations interested in receiving credit may submit their applications to FINEP at any time. The first step is to remit an Advance Consultation which, after being qualified, should be followed by a Loan Application to FINEP.

Recently, FINEP has created new instruments to support nascent high-tech firms. Some have been developed in the Inovar Project, supported by the Inter-American Development Bank (IDB). This include venture capital, provided mainly through risk capital funds. Another instrument is the Programa de Apoio à Pesquisa em Empresas – PAPPE (Program for Supporting Research in Enterprises), a program to provide research grants to individuals in small companies, similar to the Small Business Innovation Research Program (SBIR), existing in the U.S.

Types of loans

Non-reimbursable grants

Grants to public institutions or non-profit private organizations in order to:

- undertake scientific, technology, or innovation research projects;
- undertake projects in partnership with companies, including as counterparts to FINEP financing;
- provide studies or events, conferences, meeting or workshops, aiming at interchanging knowledge among researchers.

Financial support is granted by FINEP by means of an agreement with the applying organization, specifying objectives, returns expected, working plan, performance indicators, disbursement schedule, and deadline for submission of the technical report and financial summary.

Institutions that may qualify for non-reimbursable loans

- Universities and other higher education and research institutions, public or private, non-profit.
- Institutions and technological research centers, public or private, non-profit.
- Other public institutions and non-profit NGOs.



Terms

- Applications for research or innovation projects are accepted for examination only in response to requests or calls for proposals, which contain the conditions for qualification and terms.
- Applications for holding events are constantly accepted and submitted according to the calendar; guidelines and application forms are available at the FINEP site.

Loans

Loans to institutions require demonstration of tangible guarantees and conditions to develop S, T&I projects. The grace and repayment periods as well as financial charges vary in accordance with the nature of the project and the borrowing institution.

Loans are of the following types:

Standard loans

This type of loan transaction bears financial charges according to the Taxa de Juros de Longo Prazo (TJLP) (long-term interest rate), plus a spread of 2% to 6% per annum. The loan's grace and repayment periods are specified according to the nature of application, limited to three to seven years, respectively.

Interest equalization loans

This transaction grants has reduced financial charges up to 100% of the Taxa de Juros de Longo Prazo (TJLP), plus a spread of 2% to 6% per annum.

Loans with profit sharing

A credit transaction with repayment terms tied to the financial outcome by the company, with a percentage of the net operating income used to pay the financial charges.

Other means of support to companies

Fiscal Incentives

Granted to companies that run approved Programa de Desenvolvimento Tecnológico Industrial – PDTI (Program for the Development of Industrial Technology) or Programa de Desenvolvimento Tecnológico Agropecuário – PDTA (Program for the Development of Agriculture Technology).

Financial research subsidies

Non-reimbursable resources granted to selected companies among those that run approved PDTIs or PDTAs in order to cover part of the expenses involving research, development, and innovation during the previous fiscal year.

Venture Capital

The acquisition of securities (shares, convertible debentures, and subscription bonds) issued by companies, whether directly or by means of risk capital funds regulated by the Comissão de Valores Mobiliários – CVM (Stock Exchange Commission). Offerings of liquidity instruments (call and put options) in order to increase the attractiveness of private investments in risk capital funds.

PAPPE

PAPPE, a newly created program similar to the American SBIR, is conducted in partnership with the S&T Foundations in 18 States, which select projects to be funded locally and provide matching funds. Besides fostering the interaction between researchers and high-tech based firms for developing innovative projects, it is expected that PAPPE will contribute for the convergence and consolidation of the local and national innovation systems.

Cost reduction for cooperative projects

A reduction achieved as a result of project development involving participation in a consortium of non-profit research institutions, qualified for non-reimbursable loans.

Company qualification for risk investments

An action intended to qualify entrepreneurs for negotiating with Risk Capital investors, as well as creating an atmosphere favoring transactions.

RHAE Grants

A program that grants scholarships to businesses or institutions that undertake scientific and/or technological activities aiming at employing experts to work in short term projects (approved by FINEP and operated by CNPq).

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