

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**SOCIAL DEVELOPMENT WITH FISCAL SUSTAINABILITY PROGRAM FOR THE  
MUNICÍPIO OF PORTO ALEGRE (PORTO ALEGRE+)**

**(BR-L1597 AND BR-L1598)**

**LOAN PROPOSAL**

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ABBREVIATIONS	
CAPAG	Capacidade de pagamento [payment capacity indicator]
ESMP	Environmental and social management plan
LBR	Loan based on results
MEP	Monitoring and evaluation plan
NCB	National competitive bidding
PGM	Procuradoria-Geral do Município [Office of the Municipal Attorney General]
PMU	Project management unit
QCBS	Quality- and cost-based selection
SIGEF-POA	Integrated Fiscal Management and Planning System of the Government of Porto Alegre
SMF	Secretaria Municipal da Fazenda [Municipal Finance Department]
SMPAE	Secretaria Municipal de Planejamento e Assuntos Estratégicos [Municipal Department for Planning and Strategic Affairs]

## PROJECT SUMMARY

### BRAZIL

#### SOCIAL DEVELOPMENT WITH FISCAL SUSTAINABILITY PROGRAM OF THE MUNICÍPIO OF PORTO ALEGRE (PORTO ALEGRE+) (BR-L1597 AND BR-L1598)

Financial Terms and Conditions:				
<b>Borrower:</b> Município of Porto Alegre			<b>Flexible Financing Facility<sup>(a)</sup></b>	
<b>Guarantor:</b> Federative Republic of Brazil			<b>Amortization period:</b>	24.5 years
<b>Executing agency:</b> Município of Porto Alegre through the Municipal Department for Planning and Strategic Affairs			<b>Disbursement period:</b>	5 years
			<b>Grace period:</b>	6 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	SOFR-based
<b>IDB (Ordinary Capital)<sup>(f)</sup></b>	150,000,000	80	<b>Credit fee:</b>	(c)
			<b>Inspection and supervision fee:</b>	(c)
<b>Local:</b>	37,500,000	20	<b>Weighted average life:</b>	15.25 years
<b>Total:</b>	187,500,000	100	<b>Approval currency:</b>	U.S. dollar
Project at a Glance				
<b>Project objective/description:</b> The general development objective is to support the management of social spending and fiscal conditions to improve the quality of life of the residents of Porto Alegre. The specific objectives are to: (i) improve efficiency in the delivery of social services through digital transformation; (ii) improve the supply of social services and benefits; and (iii) support fiscal consolidation by strengthening public spending management.				
<b>Special contractual conditions precedent to the first disbursement of the loan:</b> (i) the <a href="#">program Operating Regulations</a> , will have entered into force in accordance with the terms agreed on with the Bank, to set the guidelines and procedures to be followed by the executing agency, including the environmental and social management considerations highlighted in the Environmental and Social Review Summary ( <a href="#">ESRS</a> ); (ii) the project management unit will have been set up within the executing agency, and the general coordinator, IT coordinator, administrative and financial specialist, monitoring and evaluation specialist, procurement specialist, environmental technical specialist, and social technical specialist will have been appointed; and (iii) the project's Special Bidding Commission will have been established. See Annex B of the <a href="#">ESRS</a> for the special socioenvironmental contractual conditions (paragraph 3.4).				
<b>Special contractual condition precedent to the first disbursement of the loan based on results (Component 3):</b> the independent verifier responsible for the external verification of outcomes will have been contracted in accordance with the terms of reference previously agreed on with the Bank (paragraph 3.5).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:<sup>(d)</sup></b>	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
<b>Crosscutting themes:<sup>(e)</sup></b>	GE <input checked="" type="checkbox"/>	and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/>	and ES <input type="checkbox"/>
				IC <input checked="" type="checkbox"/>

<sup>(a)</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>(b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

<sup>(c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(e)</sup> GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

<sup>(f)</sup> Bank financing will be used to finance the program through two investment loan instruments: (i) specific investment loan – Components 1 and 2; and (ii) loan based on results – Component 3.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 **The challenge.** In 2021, the capital of the state of Rio Grande do Sul—Porto Alegre—had a population of approximately 1.5 million inhabitants (Brazilian Institute of Geography and Statistics). It is a thriving city that has the seventh highest GDP and the fifth highest GDP per capita among Brazilian capital cities. Although it is a relatively wealthy city in absolute terms, Porto Alegre contends with significant social inequality and other problems common to large urban centers. For instance, at the beginning of 2021, 64,395 families (nearly 13% of the population)<sup>1</sup> lived in extreme poverty,<sup>[1]</sup> versus 57,886 (11.7% of the population) in November 2019. According to Salata (2022),<sup>[2]</sup> the rise in inequality dates back to 2015 but has accelerated since the coronavirus pandemic, hitting the poor, particularly women, the hardest.<sup>[3]</sup> This is compounded by a deteriorating supply of public services and social infrastructure caused by weaknesses in public spending management, which generate technical and allocative inefficiencies in spending execution.
- 1.2 In 2017, Porto Alegre had been assigned a “C” rating on the [CAPAG](#) payment capacity indicator ([optional link 3](#)) pursuant to the methodology adopted by the National Treasury, indicating a fiscal imbalance. In recent years, the Município underwent a fiscal consolidation process, in which public investment was the main adjustment variable. In 2022, as a result of the fiscal adjustment process and extraordinary transfers received to respond to the pandemic, the Município was assigned an “A” rating on the CAPAG.<sup>2</sup> The challenge facing the Município is to meet the population's growing needs without jeopardizing the fiscal balance, so it can continue accessing financing resources backed by the federal government<sup>3</sup> with better financial terms.
- 1.3 **Social context.** The decline of living conditions in Porto Alegre was exacerbated by the pandemic, which made conditions even worse for people in vulnerable situations, increased demand for social services such as healthcare and social assistance, and led to school closures that adversely affected employment dynamics for families. Porto Alegre's Gini coefficient rose from 0.59 in the third quarter of 2019 to 0.63 in the third quarter of 2020, mainly because the income of low-income earners declined. Between 2016 and 2020, the number of unsheltered people jumped by 59.2%, climbing to a total of 3,368. In the state of Rio Grande do Sul, unemployment rose from 8% in the first quarter of 2019 to 9.5% in the first quarter of 2021; data for the first quarter of 2022 suggest that the unemployment rate has returned to prepandemic levels. Broken down by income level, unemployment has taken a particular toll on people who earn less than two minimum wages. Data on children and adolescents show that there are 6,749 children and adolescents between the ages of 7 and 17 who do not attend

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<sup>1</sup> Under the assumption that each family consists of three people.

<sup>2</sup> Source: Report on Subnational Finances, 2022.

<sup>3</sup> Under prevailing legislation, only subnational governments with an CAPAG rating of "A" or "B" have enough payment capacity to arrange sovereign guaranteed loans.

or have never attended school. In addition, 15% of 15- to 17-year-olds do not attend school (Anuário Brasileiro da Educação Básica [Annual Report on Basic Education in Brazil]), and 8.7% of young people do not study or work (Pesquisa Nacional por Amostra de Domicílio [National Household Sample Survey]/Brazilian Institute of Geography and Statistics). In addition, the Município's limited fiscal headroom has resulted in low levels of social investment<sup>4</sup> and, therefore, a network of over-demanded services.

- 1.4 **Fiscal context.**<sup>[4]</sup> Between 2017 and 2022, current revenues grew by nearly 7% in real terms, contributing to fiscal balance. Tax revenues, which accounted for 40% of current revenues in 2022, rose 23% in real terms, impacted especially by proceeds from the real property tax, which grew by nearly 60% between 2017 and 2021. The services tax, the largest tax levied by Brazilian Municípios, increased 9% in real terms over that period. Current expenditure remained at the same level between 2017 and 2022, despite undergoing a change in mix. Expenditure on active and retired personnel, which had amounted to nearly 50.9%<sup>5</sup> of net current revenue in 2017, fell to 40.4% in 2022, primarily thanks to the pension reform approved by the Município. Health and education expenditures using Município funds also fell by 5.9% in 2020 (the first year of the pandemic) and by 10.4% in 2021. Social assistance expenditure has also experienced average annual cuts of 5.96% since 2016.<sup>6</sup> The significant reduction in public investment, which fell by approximately 60% between 2013 and 2019, was the main adjustment variable in the Município's fiscal adjustment. In terms of its share of total public expenditure, public investment in Porto Alegre is very low. In 2021, Porto Alegre had the 21st lowest public investment expenditure out of the 26 capital-city Municípios.<sup>[5]</sup> As a result of the fiscal consolidation process, the Município has posted a budget surplus since 2018, and its net consolidated debt stood at 25.4% of net current revenue at year-end 2021.
- 1.5 Social gaps are apparent, and there is a perception that the situation will not improve against the current backdrop of fiscal recovery (scant headroom in the short term). The determinants section below and [optional link 6](#) (a detailed analysis justifying the actions to be implemented by the project) document the existing social gaps, the low levels of investment in recent years, institutional-capacity-related challenges that hinder better targeting of the limited resources that are available, the evolving fiscal situation, and the impact of the pandemic. This project seeks to address the immediate social deficit under Components 1 and 2 and create fiscal headroom for sustainable social investment moving forward under Component 3.
- 1.6 **Determinants.** Social spending is insufficient, and coordination across different programs is poor, thus constraining these programs' ability to improve living conditions for the most vulnerable population.

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<sup>4</sup> Social spending refers to the resources that Municípios invest in social programs and includes current expenditures mandated by law; for instance, 25% of net current revenue must be used for education and 15% for health.

<sup>5</sup> Exceeding the threshold under the Fiscal Responsibility Act, which is 48.6%.

<sup>6</sup> The Fiscal Responsibility Act (Law 101 of 4 May 2000) sets national limits on public spending, which each federative entity (states and Municípios) in Brazil must follow. <https://www.gov.br/tesouronacional/pt-br/execucao-orcamentaria-e-financeira/lei-de-responsabilidade-fiscal>.

- 1.6.1 **Poor interdepartmental coordination leads to inefficiencies.** This operation's multisector approach responds to the lack of coordination in the work of social sector departments. Though CadÚnico<sup>7</sup> serves as the primary source of information, each department develops and consults its own data independently. For example, some programs are redundant, such as the housing voucher (*bônus-moradia*) administered by the Municipal Housing Department and the social housing (*aluguel social*) provided by the Municipal Social Development Department, which both assist vulnerable families with rent payments. This gives rise to more applications and longer processing times, which are evidence of the inefficiency of social investment, the poor targeting of the beneficiary population, and the perverse incentives for residents to take advantage of the lack of coordination and apply to both programs.
- 1.6.2 **The social sector (health, education, labor, and the social safety net) does not have a comprehensive strategy for its information and management systems ([optional link 6](#), paragraph 1.1 to paragraph 1.5).** Despite being one of the key pillars of digital transformation, interoperability is one of the most significant challenges facing governments and one in which they are the least aligned in their language, understanding, and development. The lack of a comprehensive strategy for managing data generated by administrative registries<sup>8</sup> means that the various information systems cannot be used efficiently, which thereby generates incomplete, erroneous, or redundant data. Between 2020 and 2021, more than 790,000 applications were registered on the [156+POA](#) website, many of which were handled manually and closed with no follow-up after processing. Lastly, after querying CadÚnico, each department prepares its own beneficiary registry for its social programs. As of 2021, the only applications that had been automated were those for business licenses and school enrollment.
- 1.6.3 **Shortcomings in the social sector services network ([optional link 6](#), paragraph 1.7 to paragraph 1.9).** Porto Alegre's social services network currently focuses on social assistance and social development services, primary and specialized health care, and education. Gender gaps exist in these sectors. In the health sector, 82.3% of women surveyed had consulted a doctor in the last 12 months, versus 69.4% of men. Furthermore, women account for the majority of diagnoses of chronic noncommunicable diseases: 56.9% of women and 46.5% of men age 18 and older reported being diagnosed with at least one chronic disease in 2019.[\[6\]](#) Meanwhile, the availability of economic development and housing services is limited, with few services on offer. Demand for these services has spiked, with some offices even seeing demand triple. This, coupled with severe restrictions on investment, has led departments to offer services in leased buildings that lack suitable infrastructure or

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<sup>7</sup> The federal government's unified social program registry—CadÚnico—is the gateway to all of Porto Alegre's social programs, and it facilitates identification and classification of families based on their level of vulnerability.

<sup>8</sup> No consideration has been given to standardization, governance, the semantic alignment of databases, or integration with analytical tools, for example.



accessibility conditions, in addition to the dilapidated conditions of much of the infrastructure and equipment that the Município already owned. As health care and social assistance have become more institutionalized and more professional, infrastructure regulations have become more demanding. Social infrastructure needs to be brought into line with current recommendations and standards, and operating costs (including rental costs) need to be reduced.

- 1.6.4 **The need for fiscal headroom for sustainable social spending** ([optional link 6](#), paragraph 1.15 to paragraph 1.17). Fiscal headroom, defined as the reserve of resources that governments can tap to deliver public services without impacting fiscal sustainability, is the primary factor that enables governments to maintain or increase social spending and investment without jeopardizing solvency or sustainability.<sup>[7][8]</sup> Given the downturn in the fiscal outlook during the pandemic, it is essential that social demands be balanced with the need to create fiscal headroom to mitigate risks to fiscal sustainability.<sup>9</sup> International experience and the literature indicate that there are several options for securing greater fiscal headroom to sustain social spending and investment, including increasing the efficiency of expenditure management and public resource reallocation, increasing tax revenues, and expanding taxable income.<sup>[9]</sup> Each jurisdiction is unique and has to choose the option that best fits its particular situation.<sup>10</sup> In light of Porto Alegre's needs, this program will implement actions aimed at improving public expenditure allocation and planning, for example by reducing the stock of *precatórios*,<sup>11</sup> thus ensuring greater availability of fiscal resources to guarantee the sustainability of social investments. *Precatórios* are payment obligations resulting from a final judicial decree against the government in recognition of worker or contractor rights or due to a fine or compensation owed to a private entity. The root causes of *precatórios* include incorrect application of the law, defective management tools, and outdated management systems.

- 1.7 **Theory of change** ([optional link 3](#)). To address the problem of existing social gaps and those that may arise in the future, the program will seek to influence the two main determinants: the low levels of social investment from recent years and the cramped future fiscal headroom arising from *precatórios* and poor management of fiscal spending. Components 1 and 2 (operation BR-L1597, a specific investment loan) will seek to improve the supply of social services and benefits in health, social protection, economic development, education, and housing while seeking to improve the efficiency of this spending by supporting the Município's plan for the digital transformation of social services. This will help improve management and delivery through digital channels, shorter travel and processing times, and decreased paper use, thereby generating gains in quality and efficiency. In addition, the project will finance improvement actions that aim to efficiently serve the vulnerable population, which have been designated as

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<sup>9</sup> Fiscal Policy and Management Sector Framework Document, 2022.

<sup>10</sup> Idem note 23.

<sup>11</sup> Payment obligations, provided for in the constitution, resulting from a final judicial decree. Governments at all three levels of government and other public bodies are required to make these payments.

priorities by Porto Alegre's social sector departments. Component 3 (operation BR-L1598, a loan based on results (LBR)) will also support the implementation of the Government Efficiency Program outlined in Porto Alegre's Multiyear Plan (required link 1), and thus contribute to the Município's fiscal balance by financing mediation and agreements with *precatório* holders in a digitalized manner, while simultaneously generating a savings in Município resources thanks to use of a discount model (*deságio*). The program will also promote transparency and accountability by launching a website where users can view and consult financial information on *precatórios*. In addition, the program will better equip the Município for legal defense, thereby improving the likelihood of success, through implementation of jurimetrics, a methodology used to analyze data on legal proceedings. Taken together, these activities focused on institutional strengthening and the reduction of the stock and flow of *precatórios* are expected to reduce current and future lawsuits and contribute to greater fiscal sustainability in the Município. In the context of the Government Efficiency Program, the project will strengthen intertemporal fiscal decision-making by funding the development of medium- and long-term fiscal projection methodologies to improve the reliability of fiscal projections.<sup>12</sup> In addition, it will improve institutional capacity for the efficient allocation of public spending by implementing the Expenditure Quality Office's updated governance model. The program will also improve the quality of financial reporting by implementing a new financial management system that is integrated with the Município's other corporate systems. Lastly, it will help lower borrowing costs by implementing new digital transformation technologies for telework at the Municipal Finance Department (SMF) and the Office of the Municipal Attorney General (PGM), which will also boost productivity.

- 1.8 **Coordination of the instruments.** This proposal strategically and complementarily combines specific short- and medium-term investments and results-oriented investments into one single program using two investment modalities: a specific investment loan for Components 1 and 2 (operation BR-L1597) and an LBR for Component 3 (operation BR-L1598). The specific investment loan is justified because the respective components develop innovative and strategic impacts for the inclusion of the vulnerable population, in addition to providing social services for all. In the social area, the program will aim to increase the efficiency of social spending in the short term by implementing a digital transformation process for social services with parallel financing for specific actions for each sector prioritized by the Município of Porto Alegre and the corresponding municipal departments. Under Component 3, reducing the stock of *precatórios* through early payments at a discount will enable the Município to reallocate a portion of the resources currently earmarked for such payments to other expense items that have a greater economic and social impact over a short

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<sup>12</sup> A difference of 6.56% between the Município's own revenues (taxes, fees and contributions for improvements, and current transfers) projected in the Annual Budget Law for 2021 and the amount executed in the balance sheet; a difference of 11.8% between the current expenditure projected in the Annual Budget Law for 2021 and the amount executed on the balance sheet for 2021. Source: Technical note on implementation of the Medium-term Fiscal Model (Output 3.4: Methodology for fiscal projections of public spending based on medium- and long-term sector strategies, implemented).

time horizon.<sup>13</sup> In addition, improving *precatório* management with a view to mitigating the emergence of new lawsuits will ward off medium- and long-term pressures from this type of expenditure. The measures envisaged to improve public expenditure planning and data quality will generate better inputs for budgetary and public policy decision-making, resulting in better quality spending to the benefit of the residents of Porto Alegre. On the fiscal front, the program will support actions to reduce technical and allocative inefficiencies in public spending, thus freeing up resources that had been allocated to activities with low social impact and improving medium-term budgetary planning.

- 1.9 **Lessons learned.** This operation is informed by the experience of prior Bank programs such as loan [3129/OC-BR](#), which, under Component 1, aims to reduce the vulnerability of highly vulnerable families through interventions in health, education, employment, income transfer, and family support. One notable lesson learned is that support for families is a determining factor in the use of complementary income transfers, adaptation to new housing, and delivery of training workshops. Loan [4641/OC-BR](#) has been referenced in preparation of this document, namely the components relating to the restructuring of local health care networks (Component 1) and the strengthening of information management and promotion of innovation (Component 3), since they will be highly useful for program design. One notable lesson learned concerns data consolidation as a way to provide better health care services to beneficiaries. Lastly, loan [4723/OC-BR](#) has been proven effective in terms of: (1) strengthening the executing agency's focus on results instead of on activities or products; (2) improving the executing agency's monitoring systems to effectively verify progress toward results; and (3) financing activities related to agricultural research, studies, and trainings for executing agency staff necessary for achievement of the expected results.
- 1.10 As regards fiscal management, the IDB has supported several successful case studies in the modernization and digitalization of the fiscal management of social expenditure, including tax and financial administration, and strategic resource management in Brazil, notably Loan [3391/OC-BR](#) as well as operations [BR-X1005](#) and [BR-X1039](#) under the PROFISCO program. According to an impact assessment, PROFISCO helped increase state tax revenues by 11.7%.<sup>14</sup> In Chile, the Bank supported reforms to digitalize public financial management under loan [5450/OC-CH](#). The IDB supported the institutionalization of public expenditure evaluation activities in Ecuador in 2019 through loan [4825/OC-EC](#). The Bank is also supporting improved governance and the reduction in the stock of *precatórios* through technical assistance to the Brazilian federal government and an LBR in Rio Grande do Sul, currently in preparation. Lessons learned include the

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<sup>13</sup> The expenditure of paying off *precatórios* at a discount is considered a transitory expenditure and complies with the requirements set out in "Modernization of Policies and Practices That Restrict the Use of Resources in Investment Loans" (document GN-2331-5) because the financing is for a specific period and is linked to the Município's institutional development. The team has drawn from the Bank's previous experience with transitory expenditure payments, such as loan 3541/BL-HO (Tax Administration Institutional and Operational Strengthening) in Honduras and loan 4845/OC-EC (State-owned Enterprise Reform Support Program) in Ecuador.

<sup>14</sup> The change in revenues from the state-level sales tax, the largest tax levied by the states, stemming from PROFISCO is linked to the implementation of outputs such as electronic invoicing (Nf-e in Portuguese) and other electronic tax documents and the effective use of digital data for automation of controls, irregularity detection, and tax collection procedures.

importance of applying data science and artificial intelligence and of reviewing and automating processes to improve the management of public spending and, especially, *precatórios* (Subcomponents 3.1 and 3.2). Expenditure monitoring and improved fiscal forecasting are also crucial to public expenditure quality (Subcomponent 3.2).[\[10\]](#) In addition, lessons learned from operation [BR-L1496](#), an LBR currently in execution, informed the design of the [program Operating Regulations](#).

- 1.11 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) through the following development challenges: (i) Productivity and Innovation, through the use of digital and information technologies by Porto Alegre to promote coordination across social and fiscal sector departments and enhance service delivery; and (ii) Social Inclusion and Equality, by improving the efficiency and quality of social services to reach vulnerable groups. The program is also aligned with the crosscutting themes of: (i) Gender, by safeguarding maternal health (paragraph 1.16.1); (ii) Climate Change, through emissions reductions arising from the digitalization of social services, and Environmental Sustainability, by building a solar array and integrating sustainable construction into buildings (paragraph 1.13); and (iii) Institutional Capacity and Rule of Law, by strengthening public resource management and planning systems and improving the transparency of public expenditures. The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the following indicators: (i) beneficiaries of targeted antipoverty programs; (ii) beneficiaries receiving health services; (iii) students benefited by education projects; (iv) households with improved access to energy services; (v) beneficiaries of employment support initiatives; and (vi) emissions avoided (annual tons of CO<sub>2</sub> equivalent). It will also contribute to the following indicators: (i) countries with strengthened tax and expenditure policy and management; (ii) agencies with strengthened digital technology and managerial capacity; and (iii) agencies with strengthened transparency and integrity practices.
- 1.12 The operation is also aligned with the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973), which is in the transition period and remains in effect, and the following specific objectives: (i) improve the public investment system; (ii) promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises; and (iii) build a more effective public sector. The operation is consistent with the respective sector frameworks ([optional link 9](#)). Lastly, the program is included in Annex III of the 2023 Operational Program Report (document GN-3154).
- 1.13 As regards climate change, an estimated 26.72% of program resources are invested in climate change adaptation and mitigation activities, according to the [joint methodology of the multilateral development banks for tracking climate finance](#). This is because the program finances activities to digitalize service delivery and social processes that will help mitigate climate change through lower greenhouse gas emissions, support equipment that complies with energy efficiency certification criteria, design and implementation of an emergency and climate shock management module, and new works that feature energy efficiency measures, water savings, and energy savings in construction materials and

spaces designed using climate proofing criteria, as well as through the construction of solar arrays. These resources contribute to the IDB Group's climate finance target ([optional link 4](#)).

## **B. Objectives, components, and cost**

- 1.14 The general objective of the program is to support the management of social spending and fiscal conditions to improve the quality of life of the residents of Porto Alegre. The specific objectives are to: (i) improve efficiency in the delivery of social services through digital transformation; (ii) improve the supply of social services and benefits; and (iii) support fiscal consolidation by strengthening public spending management.
- 1.15 **Component 1. Digital transformation to improve the efficiency of social spending (US\$40 million).** This component will finance the Município's plan for the digital transformation of social services, which will shorten processing times, reduce the use of paper, and improve service management. The plan calls for the use of predictive and preventive artificial intelligence in databases. After the databases have been scrubbed and made interoperable, they will facilitate effective monitoring of public policy needs, indicators, trends, and impact assessments and provide a comprehensive view of residents and their interactions with the Município, irrespective of the department in question.
- 1.16 This component will finance key activities under the transformational focus areas for development of interoperable social systems: (i) design and sizing of the enterprise architecture, which will establish the strategic framework, processes, and requirements of a social services management portfolio ([optional link 10](#), paragraph 1.1); (ii) structuring and development of processes and procedures that will support the information systems that will be made interoperable ([optional link 10](#), paragraph 1.2); (iii) development of the integrated environment for social management systems, including the strengthening and integration of three public-facing systems designated by the Município as priorities ([optional link 10](#), paragraph 1.3)); and (iv) creation of an interoperable intelligence platform that can be used to display and manage the Município's data and integrate that data with a georeferenced data system ([optional link 10](#), paragraph 1.4).
- 1.17 **Component 2. Improvement of the supply of social services and benefits (US\$93.5 million: IDB, US\$56 million; local counterpart contribution, US\$37.5 million).** This component will finance priority improvement actions for Porto Alegre's social sector departments:
  - 1.17.1 **Health.** With a view to improving the quality of health services offered using refurbished infrastructure still in operation, this component will finance the following: (i) construction and equipping of 11 basic health units; and (ii) refurbishment and equipping of three specialty centers. These services were selected based on the areas in the Município with the greatest socioeconomic need so as to expand services and bridge gaps in care and inequalities in access. In addition, in order to lower the percentage of hospitalizations for primary care sensitive conditions and increase the number of women treated at the intensive care unit at the Presidente Vargas Maternal and Children's Hospital, this component will finance

([optional link 5](#), Section III): (iii) improvements to five hospital services (at two hospitals), including outfitting those services with additional and replacement equipment. This item includes the construction of an obstetric intensive care unit, as postpartum complications currently have to be referred to other hospitals, thus putting patients at risk. This action is gender-specific. In addition, this item includes protocols for maternal and child health care that enhance the health ministry's guidelines, which provide guidance for the participation of men in prenatal care, childbirth, and the postpartum period, thereby sharing rights and responsibilities with the mother. All new works will incorporate energy efficiency measures, water savings, the use of low-emission building materials, and climate proofing criteria.

**1.17.2 Social protection.** With a view to increasing the percentage of beneficiaries who complete employment training and reducing the number of unsheltered individuals, this component will finance the following ([optional link 5](#), Section III): (i) projects to combat social vulnerability, with support activities explicitly targeting unhoused individuals, harm reduction, mental health services, classes and incentive payments so members of vulnerable groups can pursue professional training, and individualized family case management; (ii) construction of four *conselhos tutelares* [guardianship councils],<sup>15</sup> three social assistance referral centers and one waste sorting unit for recycling (separation units), including procurement of the respective equipment and furniture in areas in the município with the greatest socioeconomic need; and (iii) refurbishment and expansion of three *conselhos tutelares* ([optional link 6](#), paragraph 1.8), three social assistance referral centers, 12 waste sorting units, and one emergency and urgent care center, all including the procurement of the respective equipment and furniture. These improvements will help expand services and bridge gaps in care and inequalities in access for the most vulnerable families. In addition, with a view to increasing the percentage of beneficiaries who complete employment training and as part of the effort to strengthen the program for access to basic rights and combating extreme poverty promoted by the Municipal Social Development Department, this component will finance the reinforcement of family support teams and expansion of the offerings of training courses and income-generating workshops for those seeking support, to include scholarships and incentives.

**1.17.3 Economic development.** To reduce the unemployment rate, the project will finance implementation of the “*Programa + emprego: qualifica POA*” program, which targets socially vulnerable young people and women. The training courses will be linked to economic sectors in which employees are in high demand: hospitality, health support, information technology, and civil construction. This component will also coordinate with private sector actors to identify sought-after profiles in the job market. To identify priority areas with the private sector, an analysis of job demand by sector and of the sectors in which wages have increased in recent years was prepared.

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<sup>15</sup> Centers providing support and protection to people whose rights have been violated.



Based on the results of that analysis, meetings were held with representatives from those sectors to determine the courses that should be offered. S system institutions<sup>16</sup> ([optional link 6](#), paragraph 1.14) will be contracted to deliver the courses, which will include stipends for living expenses during the period of study and incentives to support enterprises.

**1.17.4 Education.** Program outcomes will include the expansion of education coverage for children ages 0 to 3 as well as an increase in the percentage of schools with an adequate level of technology equipment. The program will fund: (i) implementation of an education technology ecosystem called EDUTEC, an education-based incubator for digital transformation;<sup>17</sup> (ii) the sponsoring of spots in the private education network for children ages 0 to 3; and (iii) installation of solar panels<sup>18</sup> on the schools in the municipal network, thereby helping to build environmental and socioeconomic resilience in the region.

**1.17.5 Housing.** The program aims to reduce the cost of energy bills for condominiums and individuals and increase the disposable income of older adults who are beneficiaries of the *Vila dos Idosos* social housing program (for older adults). The project will fund two pilots: (i) an energy efficiency initiative that will use solar panels<sup>19</sup> to reduce costs for families living in subsidized housing complexes (1,200 apartments in 60 buildings and 98 houses); and (ii) construction of a housing complex for older adults (98 people), in which expenses will be partially subsidized by the rent paid by the commercial units that are part of the housing complex. The works will include environmental sustainability and climate proofing criteria.

**1.18 Component 3. Improvement of public spending management to support fiscal consolidation (US\$50 million).**<sup>20</sup> This component will support fiscal consolidation by strengthening public spending management.

**1.18.1 Strengthening the management of *precatórios*.** The program will generate savings by paying off *precatórios* at a discount of 5% or more. It will finance costs relating to: (i) mediations and reaching agreements with *precatório* holders to reduce the amounts owed by the Município; (ii) implementation of a lawsuit governance model through changes in processes and systems so as to improve the Município's defense strategy in lawsuits and mitigate the risk of new *precatórios*; and (iii) expansion of

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<sup>16</sup> A collective of nine technical and technology training institutions of interest for professional categories, established by the Brazilian constitution.

<sup>17</sup> With funding from the local counterpart contribution and implemented at identified schools, the aim is to make school a means to foster digital knowledge and skills. This involves the procurement of 25,000 Chromebooks and the adaptation of rooms for equipment, connectivity, and training.

<sup>18</sup> Financed by local counterpart funds.

<sup>19</sup> Financed with loan resources.

<sup>20</sup> This is the amount needed to liquidate the stock of *precatórios*, taking advantage of the opportunity to pay them off at a discount, and build the necessary institutional capacity to prevent new *precatórios* from emerging and strengthen public expenditure management.

the transparency website to include the disclosure of *precatórios* payment data to improve accountability and public trust.

1.18.2 **Improving institutional capacity for fiscal management.** The program will result in an increase in the number of modules consolidated under the Integrated Fiscal Management and Planning System of the Government of Porto Alegre (SIGEF-POA) to improve public spending management and quality. This component will finance costs relating to: (i) implementation of a methodology for fiscal projections of public spending based on medium- and long-term sector strategies to support the achievement of fiscal policy objectives and the prioritization of public spending; (ii) implementation of an Expenditure Quality Unit governance model, including development of institutional arrangements, responsibilities, and methodologies for the evaluation of public spending to improve monitoring of and decision-making relating to public spending; (iii) implementation of a new SIGEF-POA, to include planning and budgeting, financial, accounting, procurement, and public debt modules, as well as an automated dashboard that can generate fiscal indicators to produce quality financial data; and (iv) preparations for the virtualization and digitalization of the PGM and SMF, including the modernization of physical spaces and work processes to encourage employees to opt into telework and contribute to better public spending management through a reduction in operating costs.

1.19 In all, US\$4 million will be allocated for **administration, monitoring, and evaluation**, including administration costs for general supervision, monitoring, evaluations, and audits.

### C. Key results indicators

1.20 The program's impact will be measured through the following indicators: (i) number of vulnerable households in Porto Alegre; and (ii) access to financing backed by the federal government linked to the determinants discussed in paragraph 1.6.

1.21 The outcome indicators for Component 1 are as follows: (i) reduction in the annual budget for paper purchases at the participating departments; (ii) reduction in customer service and processing times; and (iii) average user experience rating for the public services website. The outcome indicators for Component 2 are as follows: (i) women treated in the intensive care unit at the Presidente Vargas Maternal and Children's Hospital; (ii) unemployment rate; (iii) percentage of beneficiaries who complete employment training; (iv) public education coverage for children ages 0 to 3; (v) percentage of schools with an adequate level of technology equipment; (vi) reduction in the amount billed for energy in condominiums and individual households; (vii) disposable income of older adults who are *Vila dos Idosos* beneficiaries; (viii) number of unsheltered individuals in Porto Alegre; (ix) percentage of hospitalizations for primary care sensitive conditions; and (x) health services offered using refurbished infrastructure still in operation.

1.22 The outcome indicators to be used for Component 3 disbursements ([monitoring and evaluation plan](#)) are: (i) number of disbursements by the borrower including lots of *precatórios*, in which the savings generated from paying off the *precatórios*



- is 5% or more; and (ii) number of integrated SIGEF-POA modules in operation with a view to improving public spending management and quality. Additional indicators not associated with disbursements in the results matrix (see Annex II) are: (i) number of technical opinions issued by the PGM to reduce the emergence of new lawsuits; (ii) use of digitalization and virtualization in the workplace; and (iii) reduction of the difference between the current expenditure in the balance sheet and current expenditure as projected in the Annual Budget Law.
- 1.23 **Beneficiaries.** The program will benefit the vulnerable population in Porto Alegre through the social sector departments' priority programs. In the medium term, the beneficiaries will be the residents of Porto Alegre who carry out bureaucratic formalities in the município. In addition, public servants from the Porto Alegre Finance Department will benefit from enhanced institutional capacity. By freeing up resources for public investment and/or important social programs, the program will also benefit the residents of Porto Alegre, who will gain sustainable access to State-provided goods and services with a focus on gender and the environment.
- 1.24 **Economic analysis of Components 1 and 2.** An ex ante economic analysis was conducted, taking into account the benefits derived from access to early childhood education, the strengthening of job skills, transformation in digital infrastructure, and the reduction of processing times to access social services. The outputs of these four lines of benefit account for 57% of the two components' total resources. Including 100% of the costs associated with Components 1 and 2, the cost-benefit ratio for the program is 1.15, i.e., US\$1.15 is expected to be recovered for every US\$1 invested in the project. The social internal rate of return is 13.1%, and the net present value is US\$13.7 million. A sensitivity analysis with more conservative assumptions yields results that exceed the thresholds for each indicator ([optional link 1, operation BR-L1597](#)).
- 1.25 **Economic analysis of Component 3.** An ex ante economic and financial cost-benefit analysis was conducted ([optional link 1, operation BR-L1598](#)). The benefits come from the reduction of financial obligations and from the discount for early payments of *precatórios*, as well as from the savings in hours worked generated by the new SIGEF-POA. By the end of 2031 (10 years), the project investments will have a net present value of US\$18.9 million and an internal rate of return of 27.84%. Using the worst-case scenarios for the evaluated subcomponent, the sensitivity analysis yields an internal rate of return of 10.88%.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Rationale for the use of the financing instruments.** The mix of instruments for this operation is tailored to the issues raised by the Município of Porto Alegre. The gaps in social investment will be financed through a specific investment loan, which will be used to improve the supply of social services and benefits and implement the digital transformation plan during project execution. Meanwhile, the obligation to liquidate the stock of *precatórios* and the need to improve institutional capacity for efficient allocation of public spending will be addressed through an LBR, in order to ensure that the disbursements are made after the results of the reduction in the

stock of *precatórios* have been achieved. Use of the specific investment loan instrument for Components 1 and 2 (operation BR-L1597) is justified because the operation's scope is fully defined, and its components cannot be divided without affecting its logic (paragraph 1.8). Component 3 (operation BR-L1598) will be structured as an LBR, complying with the provisions set out in the Proposal to Establish the Bank's Sovereign Guaranteed Loan Based on Results (document GN-2869-1) and the Guidelines to Process the Bank's Sovereign Guaranteed Loan Based on Results (document GN-2869-3), since the program supports achievement of the results of the Government Efficiency Program (paragraph 1.8)<sup>21</sup> through institutional strengthening and improving public spending quality, thereby helping achieve a balanced budget. To that end, the operation will make available the resources that the Município needs to take advantage of the opportunity to pay off its *precatórios* at a discount, which is a transitory expenditure,<sup>22</sup> and thus generate resource savings so it can free up fiscal headroom. In addition, the project promotes institutional strengthening and efficiency gains in public administration through the digitalization and adoption of tools and systems that help: (i) streamline and cut costs associated with the *precatório* negotiation and payment process; (ii) prevent new *precatórios* from emerging; and (iii) contain public expenditure through better quality fiscal projections and data and more effective public expenditure monitoring. In addition, the program promotes the use of the executing agency's fiduciary systems. Lastly, the Município of Porto Alegre has the appropriate legal, governance, and institutional powers as well as the managerial and technical capacity necessary to administer and monitor an LBR. The Bank's technical and financial support, including insights from its experiences with other subnational governments in Brazil and other Latin American countries, is vital to the modification of government practices to make fiscal management more efficient. Thus, the Bank's value-added lies in its contribution to fiscal sustainability, as it will ensure execution of the Government Efficiency Program.

- 2.2 **Cost.** The total cost of the operation is US\$187.5 million, of which US\$150 million will be financed from the Bank's Ordinary Capital resources and US\$37.5 million from the local counterpart contribution. The disbursement period is five years. Table 1 breaks down the costs by component.

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<sup>21</sup> Porto Alegre Multiyear Municipal Plan 2022-2026: The Government Efficiency Program, which aims to improve municipal management, institutional relations, and partnerships with the private sector through legal certainty, efficiency in procurement, unified digital services, the empowerment of public servants, effective communication, and transparency, thus ensuring fiscal and social security balances through an efficient use of public resources.

<sup>22</sup> Document GN-2331-5.

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

Components	IDB	Local	Total	%
<b>Component 1. Digital transformation to improve the efficiency of social spending</b>	40.00	0.00	40.00	21.33
Design and sizing of the enterprise architecture	1.20	0.00	1.20	0.64
Structuring and development of support processes and procedures	14.10	0.00	14.10	7.52
Development of an integrated environment for social management systems	17.70	0.00	17.70	9.44
Creation and operation of the intelligence platform	7.00	0.00	7.00	3.73
<b>Component 2. Improvement of the supply of social services and benefits</b>	56.00	37.50	93.50	49.87
Improvement of the health care network	19.00	1.00	20.00	10.67
Improvement of the social safety net	22.40	2.60	25.00	13.33
Job skills training program	7.00	0.00	7.00	3.73
Improvement of the public education network	0.00	33.50	33.50	17.87
Pilot sustainable housing policy program	7.60	0.40	8.00	4.27
<b>Component 3. Improvement of spending management to support fiscal consolidation</b>	50.00	0.00	50.00	26.67
<b>Administration and other contingent expenses</b>	4.00	0.00	4.00	2.13
<b>Total</b>	<b>150.00</b>	<b>37.50</b>	<b>187.50</b>	<b>100</b>

\*Note: The costs per main activity are indicative.

- 2.3 Table 2 shows the project disbursement schedule. The Monitoring and Evaluation Plan ([MEP](#)) shows the disbursement table and indicator verification protocol.

**Table 2. Disbursement schedule (US\$ millions)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>IDB</b>	35.74	46.39	35.36	26.49	6.02	150.00
<b>Local</b>	20.12	7.92	5.04	4.07	0.35	37.50
<b>Total</b>	<b>55.87</b>	<b>54.31</b>	<b>40.39</b>	<b>30.56</b>	<b>6.36</b>	<b>187.50</b>
<b>%</b>	30	29	22	16	3	100

## **B. Environmental and social risks**

- 2.4 Pursuant to the Bank's Environmental and Social Policy Framework and based on the evaluations carried out during the due diligence process, this program has been classified as a Category "B" operation for operation BR-L1597 and Category "C" operation for operation BR-L1598. In the case of the former, the activities to be carried out relating to construction and refurbishment works and digital transformation will generate moderate, localized, and short-term negative environmental and social impacts, for which effective mitigation measures are known and readily available. Those works are located in an urban environment. The latter is considered to have no environmental or social impact because no investments will be made in infrastructure. The risk of operation BR-L1597 has

been classified as substantial, given the risks to the health and safety of the community that may arise in the event of a failure to comply with the plans set out in the environmental and social management plan (ESMP) during the construction phase or due to the executing agency's lack of experience working with the new Environmental and Social Policy Framework. The risk of operation BR-L1598 has been classified as moderate due to the risk of natural disasters that could affect certain vulnerable populations on a prolonged or ongoing basis ([required link 3](#)).

- 2.5 The program's environmental and social impacts will be mostly positive, improving people's quality of life and medical and social care for the vulnerable population. However, the team has identified certain temporary negative impacts during performance of the infrastructure works. Adequate legislation is in place for these impacts and will be implemented in the ESMPs ([required link 3](#)).
- 2.6 Projects involving construction and refurbishment works were assessed during the due diligence process. One of the outputs to be financed will be the installation of solar panels, and measures will be implemented to prevent, manage, and monitor the risk of forced labor in the solar panel supply chain following IDB Group measures (document GN-3062-1). The [ESRS](#) includes provisions for the implementation of environmental and social mitigation measures, such as questionnaires and/or declarations relating to primary suppliers of solar arrays, taking into account market conditions and industry standards. In order to meet the requirements set out in the Environmental and Social Policy Framework, the borrower will implement an environmental and social management system and carry out activities in accordance with the plans indicated in the corresponding ESMP. Significant consultations were held virtually with stakeholders in July 2022, and the stakeholders supported the works. The consultation report and the final versions of the environmental and social documents were finalized and posted on the Bank's website on 19 August 2022. The Environmental and Social Assessment includes the consultation report as an annex.

### **C. Fiduciary risks**

- 2.7 Based on the institutional capacity assessment conducted during the program preparation period, the project team identified a risk relating to the lack of a financial management system for the program. If such a system is not contracted by the start of execution, there is a medium-high risk of delays in financial reporting, which could jeopardize or delay disbursement requests. To mitigate this risk, a technology solution will be brought in (developed or contracted) to manage the program's accounting records in U.S. dollars and generate the Bank-required financial reports. In accordance with the provisions of paragraph 3.9, procurement of that solution could be eligible for reimbursement.

### **D. Other key issues and risks**

- 2.8 **Economic and financial risk.** There is a medium-high risk that Brazil will not maintain its sustainable growth path, which may affect the Município's economic and fiscal performance, thereby delaying achievement of the project outcomes. The risk is associated with monitoring the end result, and the project itself will help mitigate the risk that the country may ultimately not be able to maintain its sustainable growth path because it contributes to a more robust and resilient fiscal

outlook for the Município. This risk will also be mitigated by the Bank's technical assistance in promoting fiscal sustainability.

- 2.9 **Governance system.** There is a medium-high risk that planned outputs or outcomes may not be prioritized appropriately if the entities involved do not achieve the required level of cooperation, thus leading to delays in program execution. This risk will be largely mitigated by the institutional arrangement between the Municipal Department for Planning and Strategic Affairs (SMPAE) and the entities involved, including the municipal departments of health, social development, education, economic development and tourism, and housing, the SMF, and the PGM.<sup>23</sup> Section III of the [program Operating Regulations](#) will include a detailed description of the institutional arrangements including the responsibilities of the parties in program execution. Under the framework of the Social Development Council (consisting of the mayor and social sector department heads), the project management unit (PMU)—the Secretaria Técnica [Technical Secretary's Office]—will present the project's planning and monitoring at least twice a year so that decisions can be made regarding execution thereof ([program Operating Regulations](#), figure 1).
- 2.10 **Internal processes** There is a medium-high risk of delays in procurements needed to implement the project timeline and outputs if the procurement and finance team is not assigned to work on the program full-time. Additionally, there is a medium-high risk (relating to human resources) that outputs will not be delivered properly if the staff from the institutions participating in the program lack availability or sufficient experience in the preparation of terms of reference, which would lead to a failure to achieve the objectives set out in the Results Matrix. These risks, respectively, will be largely mitigated by the: (i) creation of a specific bidding commission to serve the program and streamline procurement processes; and (ii) contracting of technical consulting services to support the preparation of the terms of reference.
- 2.11 **Sustainability.** The sustainability and maintenance of the program-financed investments will be ensured by: (i) a decrease in the stock of *precatórios*, which will enable the Município to allocate public expenditure to ensure building maintenance; (ii) greater efficiency stemming from the higher number of digital transactions, resulting in less paper use, and from synergies between departments for data use; (iii) savings on rental costs, which means that these resources can be redirected to building maintenance; and (iv) greater efficiency in the resources used given the inclusion of climate change responsive measures. Through the PMU, the executing agency will submit an annual maintenance plan and a report on the status of program-financed investments to the Bank within the first quarter of each year during the original disbursement period or any extensions thereof.

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<sup>23</sup> This execution framework replicates the Bank's experience with PROFISCO.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Executing agency.** The borrower will be the Município of Porto Alegre, and the Federative Republic of Brazil will be the guarantor of the borrower's financial obligations under the loan contract. The executing agency will be the Município of Porto Alegre acting through the SMPAE, where the PMU will be set up. The PMU will be responsible for leading execution of program activities in coordination with the municipal departments and beneficiary agencies, both at a strategic level with the authorities and at the operational level, in coordination with the technical areas. To that end, the PMU will include, at a minimum, a general coordinator, an IT coordinator, an administrative and financial specialist (including project management, finance, and accounting), a monitoring and evaluation specialist, a procurement specialist (with a Special Bidding Commission), an environmental technical specialist, a social technical specialist, and a legal advisor. Each beneficiary agency will designate a technical point person to monitor program activities.
- 3.2 The PMU will be responsible for all activities necessary for program execution, including: (i) being the project's liaison with the Bank; (ii) carrying out procurement processes that result in the procurement of high-quality products that comply with Bank policies; (iii) ensuring consistent alignment of program activities with expected outcomes, as well as periodic data collection to enable monitoring of the indicators included in the Results Matrix; (iv) ensuring compliance with planned socioenvironmental policies; (v) managing the program financially in accordance with accepted accounting principles and submitting audited financial statements; (vi) maintaining an updated program risk matrix; and (vii) preparing and submitting the following to the Bank in a timely manner: updated project planning documents (multiyear execution plan, annual work plans, and procurement plan), financial reports and disbursement requests, semiannual progress reports, and the project monitoring matrix. Since this operation involves two financing instruments, two separate project completion reports will be submitted, with the one prepared second using the first as input.
- 3.3 **Program Operating Regulations.** The policies, procedures, rules, and responsibilities of the executing agency will be defined in detail in the program Operating Regulations, which will set out responsibilities and profiles for all executing agency functions necessary for program execution, including physical and financial programming and execution, fiduciary arrangements, monitoring, and reporting. The program Operating Regulations will also describe the roles and means of coordination between the SMPAE and the other municipal departments (Section III.9) and entities participating in the program, particularly in respect of the allocation of budgetary space and the implementation and monitoring of activities.
- 3.4 **Special conditions precedent to the first disbursement of the loan proceeds:** (i) the **program Operating Regulations** will have entered into force in accordance with the terms agreed on with the Bank, to set the guidelines and procedures to be followed by the executing agency, including the environmental and social management considerations highlighted in the



- [ESRS](#) for successful execution of the program; **(ii) the PMU will have been set up within the executing agency, and its general coordinator, IT coordinator, administrative and financial specialist, monitoring and evaluation specialist, procurement specialist, environmental technical specialist, and social technical specialist will have been appointed**, a condition considered fundamental to facilitating program execution from the outset and ensuring compliance with Bank policies in their respective areas; **and (iii) the project's Special Bidding Commission will have been established**, to ensure adequate support for the procurement function.
- 3.5 **Disbursements related to Component 3.** Each disbursement will be made once achievement of the targets provided for each of the indicators has been verified (Annex II and the [MEP](#), Table 1). Target achievement will be verified by an independent verifier (firm, individual consultant, or other independent entity) that will: (i) issue a technical opinion as to the accuracy, reliability, and consistency of data on outcomes; and (ii) determine the values of the outcome indicators set for each disbursement tranche, including calculating the indicators in cases in which there are no automated independent reports. **Contracting the independent verifier will be a contractual condition precedent to the first disbursement of LBR resources, in accordance with the terms of reference previously agreed on with the Bank.**
- 3.6 **Disbursement procedure for Component 3.** Disbursements will be processed as follows: (i) the PMU will prepare a progress report on program execution and the outcome indicators used for disbursements, as indicated in Table 1, Annex II and in the [MEP](#), under the table of disbursement indicators. The PMU will submit this report to the independent verifier, who will analyze achievement thereof based on the protocols set out in the [MEP](#); (ii) the independent verifier will verify achievement of the outcomes in accordance with the procedures mentioned in the foregoing paragraph and within the timeframe agreed on in the terms of reference; and (iii) once achievement of the outcomes for disbursement has been verified, the executing agency will submit the corresponding disbursement request to the Bank, which will make payment to the account indicated by the Borrower. The Bank will disburse the amount corresponding to each indicator if and only if the result of the external verification shows that the value of the indicator in question is equal to or greater than the target set. If it is lower, the amount disbursed will be proportional to the target achievement. Unused balances may be reprogrammed in later disbursements.
- 3.7 **Independent verifier requirements.** The firm or professional consultant must be experienced in project evaluation and monitoring, the use of outcome indicators, and the evaluation of the reliability of information sources and the methods used to produce them. The terms of reference for this procurement will be previously agreed on with the Bank, and this procurement will be financed by the Bank loan in accordance with the procedures set out in the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15) and in accordance with the policy on the LBR instrument (document GN-2869-1).
- 3.8 **Procurement.** For Components 1 and 2, the PMU will apply the Policies for the Procurement of Goods and Works Financed by the Inter-American Development

Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15). Some direct contracting could be included in the [procurement plan](#) provided it is duly justified and follows the aforementioned policies. Where procurement is executed through the country system, supervision will also be carried out through the country system. Execution of Component 3 provides for the use of the executing agency's procurement systems, following the requirements established for LBRs (document GN-2869-1).

- 3.9 **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance from the loan proceeds up to US\$4.8 million (5% of the proposed loan amount for Components 1 and 2) in eligible expenses incurred by the borrower before the loan approval date for the procurement of Chromebooks, teacher trainings, smartboards, consultancies on technical viability and technical specifications, preparation of the detailed designs of the priority works, procurement of the business architecture for Component 1, and procurement of the program financial management system and may also recognize from the local counterpart contribution up to US\$7.5 million (20% of the estimated amount of the local counterpart contribution) in eligible expenditures incurred by the borrower prior to the loan approval date for the procurement of Chromebooks (local counterpart contribution), teacher trainings, smartboards, consultancies on technical viability and technical specifications, contracting to fill vacancies in early childhood education, preparation of the detailed designs of the priority works, and procurement of the business architecture for Component 1, and procurement of the program financial management system, provided that requirements substantially similar to those set out in the loan contract have been met. Such expenditures will have been incurred on or after 9 May 2022 (the project profile approval date) but will not, under any circumstances, include expenditures incurred more than 18 months prior to the loan approval date.
- 3.10 **Retroactive funding of outcomes previously achieved related to Component 3.** At the executing agency's request, the Bank may retroactively finance up to US\$7.5 million (15% of the amount of Component 3) for the prior achievement of outcomes attributable to the program as from 9 May 2022 (the project profile approval date) up to the Bank loan eligibility date. The Bank reviewed the costs relating to the achievement of these outcomes to verify that they are within the operation's scope and expenditure framework. Disbursement for the foregoing outcomes will be subject to the independent external verification of such outcomes. The indicator for "number of disbursements by the borrower including lots of *precatórios* in which the savings generated from paying them off amounts to 5% or more from face value," relating to the "mediation and agreements with *precatório* holders to reduce the amounts owed by the Município" output is expected to yield results prior to the program's eligibility phase. The executing agency seeks to reduce the borrowing costs on the stock of *precatórios*. Accordingly, it is moving forward with negotiations of agreements with discounts, thereby contributing to the achievement of the outcomes agreed on in this operation. In this connection, the executing agency will require retroactive financing resources to guarantee the financial flow needed to ensure the continuity of these negotiations to achieve the outcomes.



- 3.11 **Initial disbursement under Component 3.** The executing agency requested an initial disbursement of US\$5 million (10% of Component 3) from the Bank to provide the necessary resources to meet the demand from *precatório* holders for agreements with discounts, in response to the call of the eighth round, so as to instill credibility in the process. The initial disbursement amount requested was estimated based on the planning of targets, outputs, activities, and respective costs.
- 3.12 **Audited financial reports.** The Borrower will submit audited financial reports to the Bank annually, within 120 days following the end of the fiscal year. The program's final audited financial reports will be submitted no later than 120 days after the date of the last disbursement or extensions thereof and will include an analysis of possible differences between the actual program costs and the amounts disbursed for Component 3, broken down by outcome. The external audit of the program will be conducted by the Office of the Auditor General of Rio Grande do Sul or by a Bank-eligible external audit firm. Audits will be conducted in accordance with the Bank's guidelines and terms of reference for external audit.

## **B. Summary of arrangements for monitoring results**

- 3.13 **Monitoring.** Program monitoring will use the following standard Bank tools and will be prepared separately for each instrument of the operation (Components 1 and 2, and Component 3): (i) [multiyear execution plan and annual work plan](#); (ii) [procurement plan](#); (iii) Results Matrix; and (iv) the [MEP](#). At least once a year, the executing agency will submit to the Bank the updated version of (i) and (ii) and, where appropriate, the actions planned to implement the audit recommendations through 30 November of the preceding year. In addition, through the PMU, the executing agency will submit semiannual progress reports to the Bank within 60 days of the end of each calendar half-year period, which will address: (i) agreed-on execution performance, including monitoring of risks and the related mitigation measures, and progress toward expected outcomes; (ii) status of execution and of the procurement plan; (iii) compliance with contractual clauses; and (iv) status of financial execution.
- 3.14 **Evaluation.** The project will be evaluated based on the annual targets and indicators of the outcomes and outputs in the project's Results Matrix using a before and after comparison. The impact of the *Vila dos Idosos* pilot project will also be evaluated based on an analysis with control and treatment groups. The [MEP](#) calls for an independent midterm evaluation 90 days after the earlier of 36 months from signing of the loan contract or the date on which 50% of the loan proceeds have been disbursed, as well as a final evaluation 90 days after the date on which 95% of the loan proceeds have been disbursed. Evaluation reports will serve as input for the project completion reports, which will be prepared independently for each loan instrument.

Development Effectiveness Matrix		
Summary		BR-L1597
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	<div>-Social Inclusion and Equality</div> <div>-Productivity and Innovation</div> <div>-Gender Equality and Diversity</div> <div>-Climate Change</div> <div>-Institutional Capacity and the Rule of Law</div>	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	<div>-Students benefited by education projects (#)</div> <div>-Beneficiaries receiving health services (#)</div> <div>-Beneficiaries of targeted anti-poverty programs (#)</div> <div>-Households with improved access to energy services (#)</div> <div>-Beneficiaries of employment support initiatives (#)</div> <div>-Emissions avoided (annual tons CO2 equivalent)</div> <div>-Countries with strengthened tax and expenditure policy and management (#)</div> <div>-Agencies with strengthened digital technology and managerial capacity (#)</div> <div>-Agencies with strengthened transparency and integrity practices (#)</div>	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	(i) Reform the structure of public expenditure; (ii) Promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises; (iii) Build a more effective government
Country Program Results Matrix	GN-3154-1	The intervention is included in the 2023 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		7.4
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		3.4
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		8.9
5.1 Monitoring Mechanisms		3.4
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Interoperability workshop

**Evaluability Assessment Note:** The Social Development with Fiscal Sustainability Program for the Municipio of Porto Alegre (PORTOALEGRE+) has the general development objective of supporting the management of social spending and fiscal conditions to improve the quality of life of the citizens of Porto Alegre. This program will be financed through a specific investment loan of US\$100,000,000 of ordinary capital, a results-based loan of US\$50,000,000 of ordinary capital, and US\$37,500,000 of local contribution. The specific objectives are: (i) improve efficiency in the provision of social services through digital transformation; (ii) improve the supply of social services and benefits; and (iii) contribute to fiscal consolidation by strengthening public spending management. In this evaluability note we will focus on the BR-L1597 project, which focuses on the scope of specific objectives (i) and (ii).

The diagnosis proposes that in order to achieve these objectives, key actions of the municipality's digital transformation plan will be financed that allow the construction of interoperable social systems. Additionally, the project will finance improvement actions prioritized by the ministries of the social that will be focused on serving the most vulnerable population as a priority.

The results matrix is consistent with the vertical logic of the operation and presents reasonable, well-specified and adequate results indicators to measure the achievement of the specific objectives.

The project appropriately addresses monitoring and evaluation requirements. The project presents an ex ante economic analysis in which benefits considered include: access to primary education; the strengthening of work skills; the transformation in digital infrastructure and the reduction of processing times to access social services. The Internal Rate of Return (IRR) is 13.1% and the net present value is US\$13.7 million. The sensitivity analysis with more conservative assumptions yields results that exceed the thresholds for each indicator.

Development Effectiveness Matrix		
Summary		BR-L1598
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Students benefited by education projects (#) -Beneficiaries receiving health services (#) -Beneficiaries of targeted anti-poverty programs (#) -Households with improved access to energy services (#) -Beneficiaries of employment support initiatives (#) -Emissions avoided (annual tons CO2 equivalent) -Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	(i) Reform the structure of public expenditure; (ii) Promote e-government and digital solutions to foster transparency, accountability, and efficiency in delivering public services to citizens and enterprises; (iii) Build a more effective government
Country Program Results Matrix	GN-3154-1	The intervention is included in the 2023 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		1.5
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		2.5
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		0.0
5. Monitoring and Evaluation		8.3
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		4.3
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The approval of a TC is in process to improve the management of precatório

**Evaluability Assessment Note:**

The Social Development with Fiscal Sustainability Program for the Município of Porto Alegre (PORTOALEGRE+) has as its general development objective to support the management of social spending and fiscal conditions to improve the quality of life of the citizens of Porto Alegre. This program will be financed through two loans: a specific investment loan of US\$100,000,000 of ordinary capital (BR-L1597) and a second results-based loan of US\$50,000,000 of ordinary capital (BR-L1598). In addition, the project has US\$37,500,000 of local contribution. The specific objectives are: (i) to improve efficiency in the provision of social services through digital transformation; (ii) improve the supply of social services and benefits; and (iii) contribute to fiscal consolidation by strengthening the management of public spending. In this evaluability note we will focus on the BR-L1598 project that focuses on the scope of the specific objective of fiscal consolidation.

The diagnosis has identified that for the municipality to consolidate fiscally it is necessary to work on the following specific problems: an inadequate management of precatórios (obligations of payment by judicial sentence) and a lack of modernization of fiscal management. In response, the results-based loan will provide incentives to adopt a sustainable management of precatórios and to modernize spending management through the implementation of a new financial management system and digital transformation for an adequate implementation of teleworking.

The results matrix presents appropriate indicators (SMART) to measure the achievement of specific objectives. Of the five indicators included, two of them are associated with disbursements: (i) Number of disbursements for precatórios that were paid with 5% or more discount; and (ii) Number of IFMS modules integrated into financial administration. Both indicators promote institutional capacity products that are key to the achievement of the specific objective (iii).

The project appropriately addresses monitoring and evaluation requirements. The project presents a cost-benefit analysis. The benefits of the project come from (i) reduction of financial costs by the advance payment and with discounts of precatórios, (ii) the automation of processes associated with the implementation of the new modules of the SIAF. An Internal Rate of Return (IRR) of 28% was estimated.

## RESULTS MATRIX<sup>1</sup>

<b>Project objective</b>	The specific development objectives for this operation are to: (i) improve efficiency in the delivery of social services through digital transformation; (ii) improve the supply of social services and benefits; and (iii) support fiscal consolidation by strengthening public spending management. Achieving these objectives will contribute to the general objective of supporting the management of social spending and fiscal conditions to improve the quality of life of the residents of Porto Alegre.
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### GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments <sup>2</sup>
<b>General development objective:</b> Support the management of social spending and fiscal conditions to improve the quality of life of the residents of Porto Alegre.							
Number of vulnerable households in Porto Alegre.	#	64,395	2022	2027	62,000	CadÚnico	See <a href="#">MEP</a> .
Access to financing backed by the Federal Government.	#	1	2022	2026	1	National Treasury report	<p>The variable is 1 when the CAPAG rating is "A" or "B."</p> <p>Only subnational governments with a CAPAG rating of "A" or "B" have enough payment capacity to take out sovereign guaranteed loans.<sup>3</sup></p> <p>In 2022, the Município qualified for an "A" CAPAG rating.</p> <p>The "A" CAPAG rating in 2022 was due to extraordinary transfers from the federal government due to the pandemic. In 2018 and 2019, the Município had a "C" CAPAG rating, influenced by the liquidity index. Thus, maintaining an "A" or "B" CAPAG rating represents a fiscal strain for the Município, especially given the expectation that state and federal transfers will be cut due to changes in tax legislation.</p>

<sup>1</sup> To facilitate project monitoring, the Results Matrix will be broken down as follows: (i) general objective; (ii) specific objectives and outputs for Components 1 and 2, and the administration component corresponding to the specific investment loan; and (iii) specific objectives and outputs for Component 3, including the respective output matrix corresponding to the LBR. This will also facilitate project monitoring since two project completion reports will be prepared.

<sup>2</sup> Detailed comments in the [MEP](#).

<sup>3</sup> Resolution 04/2019 of the Ministry of Economic Affairs External Financing Commission. This rule does not apply to fiscal modernization projects.

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments <sup>2</sup>
							A description of the methodology used to determine the CAPAG rating can be found in paragraph 2.18 of the <a href="#">MEP</a> .

**SPECIFIC DEVELOPMENT OBJECTIVES, COMPONENTS 1 AND 2**

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
<b>Specific development objective 1: Improve efficiency in the delivery of social services through digital transformation</b>											
1.1 Reduction in the annual budget for paper purchases at the participating departments.	Percentage	0%	2022	0%	0%	20%	30%	30%	30%	Monitoring and evaluation reports	30% reduction of the executed budget compared to the 2022 executed budget.
1.2 Reduction in customer service and processing times.	Percentage	0%	2022	0%	10%	10%	20%	30%	30%	Monitoring and evaluation reports	30% reduction in average processing time for InterPOA transactions, compared to 2022.
1.3 Average user experience rating for the public services website.	Average rating of the service (from one to five, with five being the maximum)	n/a	2022	3	3	3	3	4	4	Website user satisfaction survey	Average of four points in user satisfaction with the website.
<b>Specific development objective 2: Improve the supply of social services and benefits</b>											
2.1 Women treated in the intensive care unit at Presidente Vargas Maternal and Children's Hospital.	Women	0	2022	0	0	33	33	34	100	Monitoring and evaluation reports.	The intensive care unit should incorporate protocols for maternal and child health care.
2.2 Unemployment rate.	%	10.6	2022	10.0	9.5	9.0	8.5	8.0	7.6	National Household Sample Survey	
2.3 Percentage of beneficiaries who complete employment training.	Beneficiaries	0%	2022	0	TBD	TBD	TBD	TBD	TBD	Monitoring and evaluation reports	People who complete the course / people enrolled

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
2.4 Public education coverage for children ages 0 to 3.	Students	78%	2021	79%	80%	82%	83%	85%	85%	School census	
2.5 Percentage of schools with an adequate level of technology equipment.	%	67%	2021	70%	80%	85%	90%	95%	95%	Monitoring and evaluation reports	
2.6 Reduction in the amount billed for energy in condominiums and individual households.	%	0	2022	0	0	10	20	30	30	Companhia Estadual de Distribuição de Energia Elétrica – Equatorial Energia	Average annual billing / Average annual billing in the baseline year (2022)
2.7 Disposable income of older adults who are <i>Vila dos Idosos</i> beneficiaries.	Reais	TBD	TBD	TBD	TBD	TBD	TBD	TBD	Baseline + 0.46 standard deviation	Monitoring and evaluation reports	Sum of the earned and unearned income of the older adults benefitting from the program. The information will be collected through CadÚnico once the group of beneficiaries has been formed. See <a href="#">MEP</a> .
2.8 Number of unsheltered individuals in Porto Alegre.	#	3,368	2020	3,233	3,098	2,963	2,828	2,693	2,693	Monitoring and evaluation reports	20% reduction.
2.9 Percentage of hospitalizations for primary care sensitive conditions.	%	17.9	2021	17.5	17	16.5	15.75	15	15	Health System Performance Evaluation Project / Health Information System-Unified Health System	Number of inpatient hospital admissions for primary care sensitive conditions financed by the Unified Health System x 100 / Total number of inpatient hospital admissions financed by the Unified Health System, excluding hospitalizations with childbirth-related diagnoses.

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
2.10 Health services offered using refurbished infrastructure still in operation.	#	0	2022	2	4	9	16	19	19	Monitoring and evaluation reports	Execution of infrastructure works to improve access to and quality of basic health services.

#### OUTPUTS

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
<b>Component 1: Digital transformation to improve the efficiency of social spending<sup>4</sup></b>											
1.1 Enterprise architecture for InterPOA, validated.	Document	0	2022	1	0	0	0	0	1	SPR <sup>5</sup>	Enterprise architecture document.
1.2 InterPOA project management office, in operation.	Office	0	2022	1	1	1	1	1	1	SPR	Project end should be calculated as the average.
1.3 Project management office equipped with hardware.	Office	0	2022	1	2	0	0	0	3	SPR	Hardware for data processing, storage, and backup.
1.4 InterPOA public services center, in operation.	Services	2	2022	3	5	5	0	0	5	SPR	Three new services for the public services center and strengthening of the call center.
1.5 Systems in operation in an integrated environment (agency-specific and shared use systems).	Systems	0	2022	0	2	2	1	0	5	SPR	Three agency-specific systems and two shared use systems.
1.6 Data intelligence platform functionalities, operational.	Functionalities	0	2022	0	0	2	2	3	7	SPR	Management and operational reports and individual status queries. Georeferenced data display.

<sup>4</sup> The final targets and amounts for outputs 1.2, 1.3, 1.4, 1.5, 1.6, and 1.7 will be adjusted upon completion of the "Enterprise Architecture for InterPOA" consultancy envisaged in output 1.1, which will define and technically and institutionally validate the scope of each component line.

<sup>5</sup> SPR: Semiannual Progress Report

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
<b>Component 2: Improvement of the supply of social services and benefits.</b>											
2.1 New basic health units built and outfitted for operation that meet criteria equivalent to EDGE certification.	Basic health units	0	2022	1	4	4	2	0	11	SPR	Family clinics and health units.
2.2 Specialty centers expanded or refurbished and operational.	Specialty centers	0	2022	0	2	1	0	0	3	SPR	
2.3 High complexity hospital services improved and operational.	Services	0	2022	1	2	2	0	0	5	SPR	
2.4 Social assistance centers built, refurbished, or expanded.	Centers	0	2022	0	7	8	8	4	27	SPR	
2.5 Vulnerable beneficiaries receiving subsidies or sponsorship for job training.	Beneficiaries	0	2022	500	1,500	2,000	2,000	1,500	7,500	SPR	
2.6 Beneficiaries receiving subsidies or sponsorship for job training via "Qualifica POA"	Beneficiaries	0	2022	500	1,500	2,000	2,000	1,000	7,000	SPR	
2.7 Children who access early childhood education via sponsorship annually.	Children	0	2022	1,200	1,200	1,200	1,200	1,200	6,000	SPR	
2.8 Schools benefitting from equipment and digital infrastructure improvements.	Schools	0	2022	20	70	90	0	0	90	SPR	Project end is calculated using the highest value.
2.9 Solar arrays in social housing complexes, in operation.	Arrays	0	2022	0	2	0	0	0	2	SPR	
2.10 Pilot housing center for older adults, outfitted and meeting criteria for EDGE certification or equivalent.	Center	0	2022	0	0	0	1	0	1	SPR	



Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
<b>Administration and other expenses</b>											
4.1 PMU, in operation.	Unit	0	2022	1	1	1	1	1	1	SPR	Coordination and support team for fiduciary matters, evaluations, and the audits envisaged in the <a href="#">MEP</a> . Project end should be calculated as the average.

**SPECIFIC DEVELOPMENT OBJECTIVES, COMPONENT 3<sup>2</sup>**

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Project end	Linked to disbursement?	Means of verification	Comments
<b>Specific development objective 3: Support fiscal consolidation by strengthening public spending management</b>											
3.1 Number of disbursements by the borrower including lots of <i>precatórios</i> , in which the savings generated from paying them off is 5% or more.	#	0	2022	1	2	3	4	-	Yes	Independent audit report	Each lot of <i>precatórios</i> paid off at a savings of 5% or more from face value is limited to the expected amount of each disbursement tranche.
3.2 Number of technical opinions issued by the PGM to reduce the emergence of new lawsuits.	Report	0	2022	0	1	1	1	3	No	SMF report	Improvements in institutional capacity related to the use of jurimetrics, the results of which are presented in technical and legal opinions to reduce the contingent liabilities that could generate unfavorable court rulings for the PGM.
3.3 Use of digitalization and virtualization in the workplace.	%	0	2019	0	0	0	30	30	No	SMF and PGM report	% of SMF and PGM officials who telework. See <a href="#">MEP</a> and the <a href="#">Theory of Change</a> document for more details.

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Project end	Linked to disbursement?	Means of verification	Comments
3.4 Number of integrated SIGEF-POA modules in operation with a view to improving public spending management and quality.	Module	0	2022	0	1	1	1	3	Yes	Independent audit report	Measures improvements in the institutional capacity for generating data for better fiscal planning.
3.5 Reduction of the difference between current expenditure in the balance sheet and current expenditure as projected in the Annual Budget Law.	% difference	11.8	2021	0	0	0	5	5	No	SMF report based on balance sheet and fiscal model	Percentage difference between the current expenditure in the balance sheet and the current expenditure projected in the Annual Budget Law. The baseline is the difference between the 2021 balance sheet and the 2021 Annual Budget Law.

OUTPUTS

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Project end	Means of verification	Comments
<b>Component 3: Improvement of public spending management to support fiscal consolidation</b>										
3.1 Mediations and agreements with <i>precatório</i> holders through which the amounts owed by the Município are reduced.	Negotiation process	0	2021	1	1	1	0	1	PGM report	
3.2 Lawsuit governance model implemented through changes in processes and systems.	Governance model	0	2021	0	1	0	0	1	PGM report	
3.3 Transparency website expanded to include disclosure of <i>precatório</i> payment data.	Transparency website	0	2021	0	0	0	1	1	SMF report	

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	Project end	Means of verification	Comments
3.4 Methodology for fiscal projections of public spending based on medium- and long-term sector strategies, implemented.	Projection methodology	0	2021	0	0	1	0	1	SMF report	
3.5 Expenditure quality office governance model, including definition of institutional arrangements, responsibilities, and methodologies for the evaluation of public spending, implemented.	Governance model	0	2021	0	0	1	0	1	SMF report	The model is considered implemented once it has produced at least one evaluation of a public policy.
3.6 SIAF implemented.	Module	0	2021	0	1	1	1	3	SMF report	The system is considered implemented when three modules are operational: planning and budgeting, financial, and accounting.
3.7 Agencies that have implemented new technologies to facilitate digital transformation.	Agency	0	2021	0	0	1	1	2	SMF report	

**Country:**  
Brazil

**Division:**  
SCL/EDU and IFD/FMM

**Operation number:**  
BR-L1597 and BR-L1598

**Year:**  
2023

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

**Executing agency:** Município of Porto Alegre, acting through the Municipal Department for Planning and Strategic Affairs (SMPAE).

**Operation name:** Social Development with Fiscal Sustainability Program for the Município of Porto Alegre (Porto Alegre+)

### I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

#### 1. Use of the country system in the operation<sup>1</sup>

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

#### 2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Particular features of fiduciary execution	<p>The loan is a combined operation, structured as a specific investment loan with actions targeting the social area (Components 1 and 2) and as a loan based on results (LBR) with actions targeting the fiscal area (Component 3).</p> <p>The program will be executed by the Porto Alegre SMPAE (executing agency) acting through the Project Management Unit (PMU), which will be responsible for program financial and procurement management, disbursements, records, and financial statements. To manage disbursements under Component 3, the executing agency will produce a progress report addressing execution of the component and the outcome indicators used for disbursements. The executing agency will then submit this report for external verification of the outcomes in order to analyze achievement thereof, following the protocols set out in the <a href="#">program Operating Regulations</a>. An independent external verifier will verify achievement of the outcomes in accordance with the established objectives and the terms of reference agreed on with the IDB for this purpose. Once achievement of the disbursement-linked outcomes has been verified, the executing agency will submit the corresponding reimbursement request to the IDB, which will reimburse the expenses. The Bank will disburse the amount corresponding to each indicator if and only if the result of the external verification shows that the value of the indicator is equal to or greater than the target set. If it is lower, the Bank may process a partial disbursement proportional to achievement of the target. Unused balances may be reprogrammed for later disbursements.</p>
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#### 3. Fiduciary capacity

Fiduciary capacity of the executing agency	The SMPAE was found to have adequate fiduciary capacity and suitable conditions for assuming the responsibilities of program executing agency, in light of its prior experience executing projects financed by the IDB (loan <a href="#">1979/OC-BR</a> )
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<sup>1</sup> Any system or subsystem that is subsequently approved may be applied to the operation, in accordance with the terms of the Bank's validation.

	and by other multilateral institutions. However, to ensure successful execution, the SMPAE should establish a PMU and set up a Special Bidding Commission, and all offices involved in project execution should receive proper training in the Bank's procurement and financial management policies.
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#### 4. Fiduciary risks and risk response

Risk type	Risk	Risk level	Risk response
Economic/ financial	The executing agency must have the necessary cash flow to cover the expenses that will ensure achievement of the program's intended outcomes. Without adequate financial planning guaranteed by the timely allocation of adequate resources in the annual budget, the achievement of the outcomes and the flow of disbursements may be delayed.	Medium-low	Coordination with those responsible for the Município's budget is necessary.
Organizational structure	Lack of familiarity with the Bank's fiduciary management requirements may result in delays in financial reporting.	Medium-low	Advisory services and training on Bank policies and procedures should be provided to the PMU's fiduciary staff. In addition, the financial requirements should be addressed in the program Operating Regulations.
Systems	If the program's financial management system has not been contracted by the start of execution, there may be delays in the submission of financial information, thereby jeopardizing or delaying disbursement requests.	Medium-high	A technology solution for managing the program's accounting records in U.S. dollars and generating the Bank-required financial reports should be developed or contracted.

5. Policies and guidelines applicable to the operation: The Financial Management Guidelines for IDB-financed Projects (document OP-273-12) will be used for the program's financial management. The policies in document GN-2349-15 and document GN-2350-15 will apply for procurement management under the investment loan components.
6. Exceptions to policies and guidelines: Not applicable.

## II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

<p><b>Exchange rate:</b> For the purposes of Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the rate indicated in Article 4.10(b)(i). To determine the equivalency of expenditures incurred in local currency chargeable against the local counterpart contribution or the reimbursement of expenses chargeable to the loan, the agreed-on exchange rate will be the rate in effect on the effective date on which the borrower, the executing agency, or any other individual or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.</p>
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**Audited financial statements:** Audited financial statements are required to be submitted within 120 days of the close of each fiscal year during the loan disbursement period. The audit will be conducted by the Office of the Auditor General of Rio Grande do Sul, pursuant to the terms of reference previously agreed on with the Bank. The final report will be submitted within 120 days following the date stipulated for the last disbursement of the loan and will include an analysis of possible differences between the actual program costs and the amounts disbursed for Component 3, broken down by outcome.

**Retroactive financing, recognition of expenditures, and initial disbursement:** The program anticipates up to US\$4.8 million (5% of the amount of Components 1 and 2) in retroactive financing using the loan proceeds, and recognition against the local counterpart contribution of up to US\$7.5 million (20% of the estimated amount of the local counterpart contribution). For Component 3, the program anticipates up to US\$7.5 million (15% of the Component 3 amount) in retroactive financing for prior achievement of outcomes attributable to the program. The program also anticipates an initial disbursement of US\$5 million (10% of the amount of Component 3) based on the actual financing needs required for achievement of the program's more immediate outcomes.

### III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Bidding documents	For Components 1 and 2, procurements of works, goods, and nonconsulting services executed in accordance with the procurement policies (document GN-2349-15) and subject to international competitive bidding will use the Bank's standard bidding documents or those agreed on by the executing agency and the Bank for the procurement in question. Also, consulting services will be selected and procured in accordance with the policies for the selection of consultants (document GN-2350-15), and the standard request for proposals issued by the Bank or agreed on by the executing agency and the Bank for the selection in question will be used.								
<input checked="" type="checkbox"/>	Use of country systems	For Component 3, the executing agency's processes will be used following the limits and recommendations set out in the <a href="#">program Operating Regulations</a> .								
<input checked="" type="checkbox"/>	Advance procurement/ retroactive financing:	In accordance with the section on retroactive financing and recognition of expenditures for procurements included in the <a href="#">procurement plan</a> , provided that substantially similar requirements to those set out in the loan contract have been met. Such expenditures will have been incurred on or after 9 May 2022 (the project profile approval date) and up to the loan approval date, but may not, under any circumstances, include expenditures incurred more than 18 months prior to the loan approval date (see document GN-2349-15, document GN-2350-15, and the policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1)).								
<input checked="" type="checkbox"/>	Procurement supervision	<p>The supervision method will be ex post, except where ex ante supervision is warranted. For procurement executed through the country system, supervision will be carried out through the country supervision system. The supervision method (i) ex ante, (ii) ex post, or (iii) country system) will be determined for each selection process. Ex post reviews will be conducted in accordance with the project supervision plan, subject to change during execution. The thresholds for ex post review are as follows:</p> <table><tr><th>Executing agency</th><th>Works</th><th>Goods/services</th><th>Consulting services</th></tr><tr><td>Município of Porto Alegre, through the SMPAE</td><td>US\$10 million</td><td>US\$5 million</td><td>US\$1 million</td></tr></table>	Executing agency	Works	Goods/services	Consulting services	Município of Porto Alegre, through the SMPAE	US\$10 million	US\$5 million	US\$1 million
Executing agency	Works	Goods/services	Consulting services							
Município of Porto Alegre, through the SMPAE	US\$10 million	US\$5 million	US\$1 million							

Major procurements

Description	Selection method	Estimated date	Estimated amount (US\$000)
<b>Goods</b>			
Enterprise content management system	International competitive bidding	1-IX-23	2,000
Hardware for backup	Quality- and cost-based selection (QCBS)	1-II-24	2,000
Licenses for database management systems, support, and subscription	QCBS	1-XII-23	2,020
<b>Works</b>			
Diagnostics Center (Pronto Socorro Hospital)	NCB	1-II-24	4,800
Installation of solar arrays	NCB	1-VII-24	4,000
Construction of <i>Vila dos Idosos</i>	NCB	1-VII-24	3,000
<b>Nonconsulting services</b>			
Development of the customer relationship management (CRM) system	NCB	1-IV-24	2,300
Technical teams for family support and plans for access to basic rights	Country system	1-XII-23	2,000
Ongoing teacher training	QCBS	1-IV-24	2,500
<b>Consulting firms</b>			
Integrated system for combating extreme poverty and job market integration	QCBS	1-V-24	5,040
Consulting services for data management and platform development	QCBS	1-XII-23	2,900
Public services center and management of digital platforms	QCBS	1-II-24	2,000
Integrated health and primary care management system	QCBS	1-V-24	3,060
<b>Individual consultants</b>			
PMU coordinators	Country system	1-X-23	700

Click [here](#) to access the procurement plan.

#### IV. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT

<input checked="" type="checkbox"/>	Programming and budget	The executing agency, acting through the PMU, will be responsible for coordinating planning for the execution of activities, pursuant to the provisions of the multiyear execution plan and annual work plan. Municipal agencies use country tools for planning and organizing program activities: the multiyear plan, which sets out guidelines, objectives, and targets for the administration; the Budget Guidelines Law, which lays out guidelines for the government's budget; and the Annual Budget Law, which projects and sets limits on public spending for the current year. The funds needed for program execution (both for the
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		external loan and the local counterpart contribution) should appear in the Budget Guidelines Law.
<input checked="" type="checkbox"/>	Treasury and disbursement management	<p>For Components 1 and 2, disbursements will be made in U.S. dollars under the advance of funds modality. Advances will be based on a financial plan reflecting liquidity needs for a period of up to six months. Future advances will require supporting documentation for at least 80% of the cumulative total of balances pending justification.</p> <p>Resources will be managed via an exclusive bank account that enables independent identification of the loan proceeds and management of their reconciliation. This includes deposits and payments.</p> <p>For Component 3, disbursements will be made under the modality of expense reimbursement based on the disbursement matrix and subject to independent verification of the achieved outcomes by an independent external verifier. For this component, the executing agency may request an initial disbursement to finance activities and goods that are justified as necessary for achievement of the outcomes.</p> <p>For the purpose of accounting for loan resources and the local counterpart contribution, the executing agency will use: (i) for IDB resources, the exchange rate in effect when the advanced funds are converted from the operation currency into the local currency; and (ii) the exchange rate in effect on the date of payment for the reimbursement of expenses and recognition of local counterpart contribution expenditures. Expenses deemed ineligible by the Bank will be repaid using local counterpart contribution resources depending on the nature of the ineligibility.</p> <p>The executing agency will use the Online Disbursement platform to handle IDB disbursements.</p>
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	<p>Porto Alegre uses the CTB accounting system and the GOR budget management system to monitor budget, accounting, and financial execution activities. The Município does not yet have an automated and integrated accounting and financial reporting system that can generate IDB-compliant financial reports in the operation currency (U.S. dollars). The executing agency will develop a financial management module integrated with the Município's systems or acquire a system that enables reporting for the program's disbursement processes and financial statements, as well as basic reports requested by the IDB.</p>
<input checked="" type="checkbox"/>	Internal control and internal audit	<p>Created by Complementary Law 625 of 2009, the Municipal Comptroller's Office is responsible for coordinating, supervising, and evaluating the activities of the municipal government's internal control bodies.</p> <p>The internal audit of the SMPAE is conducted by the Município's Audit Division, which reports to the Municipal Comptroller's Office. The Audit Division is responsible for monitoring and evaluating internal control and recommending measures for improvement.</p>
<input checked="" type="checkbox"/>	External control and financial reporting	<p>External control of the Município of Porto Alegre is exercised by the Office of the Auditor General of Rio Grande do Sul.</p> <p>The external audit of the program will be conducted by the Office of the Auditor General of Rio Grande do Sul or by a Bank-eligible external audit firm. See Section II on audited financial statements.</p>



<input checked="" type="checkbox"/>	Financial supervision of the operation	The financial supervision plan will be based on the risk and fiduciary capacity assessments of the executing agency and will consider on-site and desk monitoring visits, analysis and follow-up of results, and recommendations from audits of the program's annual financial reports.
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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/23

Brazil. Loan \_\_\_\_/OC-BR to the Municipality of Porto Alegre. Social Development with Fiscal Sustainability Program for the Município of Porto Alegre (PORTOALEGRE+)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Municipality of Porto Alegre, as borrower, and with the Federative Republic of Brazil, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Social Development with Fiscal Sustainability Program for the Município of Porto Alegre (PORTOALEGRE+). Such financing will be for the amount of up to US\$150,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2023)