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BRAZIL

**SOCIAL INCLUSION AND OPPORTUNITIES PROGRAM FOR YOUTH
IN RIO DE JANEIRO**

(BR-L1287)

LOAN PROPOSAL

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Required	
1.	Annual work plan (Plan of activities for the first disbursement and the first 18 months of implementation) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36451579
2.	Monitoring and evaluation arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36451577
3.	Complete procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36451581
4.	Environmental and Social Management Report (ESMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36451575
Optional	
1.	Social Inclusion and Opportunities for Youth in Rio – Perspectives on gender and race http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36440247
2.	Conceptual Note on At-risk Youth and Intervention Models http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36451586
3.	Cost-benefit analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36463752
4.	FLACSO survey http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36547345
5.	Social Inclusion and Opportunities for Youth in Rio http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36586136
6.	Safeguard screening form for classification of projects (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=36966203

ABBREVIATIONS

ESMR	Environmental and Social Management Report
FLACSO	Faculdade Latino Americana de Ciências Sociais [Latin American Faculty of Social Sciences]
IETS	Instituto de Estudos do Trabalho e Sociedade [Institute for Studies on Labor and Society]
IPC	Intersectoral Program Committee
IRR	Internal rate of return
LIBOR	London Interbank Offered Rate
PMU	Program Management Unit
PNAD	Pesquisa Nacional por Amostra de Domicílios [National Household Survey]
R\$	Brazilian reais
SEASDH	Secretaria de Estado de Assistência Social e Direitos Humanos [State Department of Social Welfare and Human Rights]
SIAFEM	Sistema de Administração Financeira para Estados e Municípios [Financial Administration System for States and Municipalities]
UPP	Unidade de Polícia Pacificadora [Police Pacification Unit]

PROJECT SUMMARY
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BR-L1287

Financial Terms and Conditions				
Borrower: Government of the State of Rio de Janeiro Guarantor: Federative Republic of Brazil Executing agency: Borrower, through the Secretaria de Estado de Assistência Social e Direitos Humanos [State Department of Social Welfare and Human Rights] (SEASDH)			Amortization period	25 years
			Grace period:	4 years
			Disbursement period:	4 years
Source	Amount in US\$	%	Interest rate:	LIBOR
IDB (Ordinary Capital)	60,000,000	70%	Inspection and supervision fee:	*
Local	24,550,000	30%		
Other financing	0	0	Credit fee:	*
Total	84,550,000	100%	Currency:	U.S. dollars from Single Currency Facility of the Ordinary Capital
Project at a Glance				
Project objective/description: The general objective of the program is to promote social and productive inclusion among young people ages 15 to 29 who live in areas with a Police Pacification Unit (UPP), by linking their demands to an improved, integrated supply of opportunities. The project is initially expected to include 20 favela communities undergoing the pacification process, and to serve 40,000 young people (paragraph 1.21).				
Conditions precedent to the first disbursement: (i) the governor's decree formally establishing the program and its three management levels; (ii) appointment of the general coordinator and the principal coordinators (technical and financial) of the Program Management Unit (PMU); (iii) model cooperation instruments between the SEASDH and the other departments that will have a role in program execution; (iv) official publication providing evidence of the entry into effect of the program Operating Regulations, according to the terms approved by the Bank; (v) publication of the notice for the bidding to hire the program management firm; and (vi) terms of reference for hiring the auditing firm and for procurement of the information system to manage and monitor the program (paragraph 3.2).				
Special conditions for starting Component 2: (i) to begin the activities of each state department participating in the program, publication of the joint resolution between SEASDH and the respective department; (ii) entry into effect of the agreement between the borrower and the Município of Rio de Janeiro for execution of the health activities under Component 2; and (iii) presentation of the Territorial Intervention Plan and Diagnostic to the Bank's satisfaction (paragraph 3.2).				
Exceptions to Bank policies: None.				
Project qualifies as: SEQ [X] PTI [X] Sector [] Geographic [X] Headcount []				

(*) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems, and rationale

- 1.1 The state of Rio de Janeiro, one of the 27 federative units of Brazil, is located in the country's Southeast region and has an estimated population of 15.9 million, 96% of whom are in urban areas. Although it has Brazil's second-largest gross domestic product and has seen significant economic growth in recent years, 15.7% of the state's population lives in poverty. Its Gini coefficient in 2009 was 0.54, similar to that of several states in Brazil's Northeast. Of the state's population, 23%, or 3.6 million, are ages 15 to 29. An estimated 7.9% of these young people live in favelas around the state, and 6.1% in favelas in the Rio de Janeiro metropolitan region.
- 1.2 According to the 2009 Brazilian National Household Survey (PNAD), one out of every two favela households in metropolitan Rio has at least one person ages 15 to 29. This figure offers a more precise measurement of the magnitude of the social policy challenge, because even when young people live in favorable circumstances, they remain subject to instability due to the changes they experience during this period in their lives. When young people live in high-risk environments that subject them to extremely vulnerable situations, these changes tend to occur earlier and haphazardly, forcing them to assume adult roles, discontinue their education, begin working, and assume family responsibilities, including caring for their own children.
- 1.3 The state of Rio de Janeiro is particularly emblematic in this regard because of the more acute vulnerability of its youth, as indicated by their sociodemographic profile. While nearly half of these young people are children in the household, it is just as significant that two out of every five young people are the head of household or a spouse, assuming that role at a very young age. Poverty data on favela households with young residents reveal that 34.2% live in a household in which the per capita income of the head is equal to or less than one-fourth of the minimum wage; and 18% live in a household that is poor but not destitute, i.e., in which the principal per capita income is between one-fourth and one-half of the minimum wage.
- 1.4 There is a well known lack of representative data on young people in the project intervention area, i.e., favela communities that have a Police Pacification Unit (UPP) as part of a strategy to consolidate the pacification process by installing community police in territories taken over by drug traffickers. The 2010 Demographic Census, which is the best database profiling the young people residing in favelas, is not yet available; and the PNAD, which offers an approximate geographic identification, is not representative of the situation in the favelas. The only study that attempts to trace the socioeconomic profile of the first nine favelas with a UPP was conducted by the Instituto de Estudos do Trabalho e Sociedade [Institute for Studies on Labor and Society] (IETS) in 2010. It found that the average per capita income in favelas with a UPP was R\$556—well below the figure for the Rio metropolitan region, R\$905.50. The favelas with the lowest per

capita income are Providência and Batan, which also have the highest percentages of poor people (28% and 36%, respectively) and the highest unemployment rates (10.5% and 19.7%, respectively).¹

- 1.5 Enrollment figures show that in Batan and Cidade de Deus, less than 60% of the children attend day care or elementary school, and less than 70% of children ages 15 to 18 in Batan, Pavão-Pavãozinho, and Babilonia attend school. Adults in favelas with a UPP have far fewer years of schooling than those in metropolitan Rio (8.6 years), as is the case of Providência and Pavão-Pavãozinho (5.8 and 5.9 years). Approximately half of young people ages 15 to 24 in these communities do not attend school, and a significant proportion neither work nor study; in Batan, for example, that figure is 40%.
- 1.6 The particular situation in these communities is confirmed in the analysis of the general overview of young people living in communities with a UPP.² In 2008 only 52.5% of 19-year-olds had completed secondary school, mainly due to low achievement and high dropout rates. The dropout rate is, in fact, above the national average (13.8% and 11.5%, respectively). The age-grade distortion rate in 2009 was 32.4% in elementary school and 41.6% in secondary, nearly 12 points above the national average. Over 70% of youth have not completed their secondary education in the favelas, while the figure for youth not living in the favelas is just over 30%, and this gap can be seen in other dimensions as well. The employment rate for young people ages 20 to 29 who do not live in favelas is 70% for those who have completed their secondary education, but only 55% of those with the same education level and living in favelas are employed. Problems with advancement and coverage are also reflected in issues with the quality of learning: 75% of students in the last year of secondary school show low achievement in mathematics and 60% show poor performance in Portuguese.
- 1.7 Critical health indicators show that women who are more socioeconomically vulnerable are more likely to have a higher number of children and to have them at an earlier age. In the 15 to 29 age group, for example, black women, who are generally more vulnerable from a socioeconomic standpoint, have a higher fertility rate than women higher on the socioeconomic scale. In metropolitan Rio, the rate for white women is 37 live births per one thousand women, while the rate for black women is 62 per thousand. Women from households with lower per capita income (less than or equal to half the minimum wage) have an even higher rate in the 20 to 24 age group,

¹ The study, entitled “[Juventudes em Comunidades de UPPs: Perfil, expectativas e projetos para suas comunidades](#)” [Youth in UPP communities: Profile, expectations and projects] and coordinated by FLACSO with IDB support, is currently in progress.

² This characterization comes from consolidating the data from the 2000 census (the most recent available), the IETS based on the field research for its study entitled “Avaliação do Impacto das UPP” [Impact Evaluation of UPPs], and the sample of substandard agglomerations considered in the PNAD for 2008 and 2009. For further reference, see Gondim, Teixeira, C. “*Descrição das Favelas e Perfil Socioeconômico da juventude residente em favelas da Cidade do Rio de Janeiro*” [Description of Favelas and Socioeconomic Profile of Youth Residents of Favelas in the City of Rio de Janeiro] 2011. IDB. Brasília.

and in substandard agglomerations³ the highest fertility rate is in the 15 to 19 age group.

- 1.8 The causes of child mortality are associated with the high rates of mortality due to external causes, mainly among the young male population. For every thousand males ages 20 to 24, there are nearly three such deaths, while the rate for women is 0.2. Although the homicide rate in the state capital decreased by 50.4% in the 1998-2008 period (from 62.6 to 31 homicides per 100,000 residents), it remains high in the 15 to 24 age group, with 72.8 homicides per 100,000 in 2008—one of the highest rates in the country. This is indicative of young people's greater exposure to violence as compared to the overall population.⁴ Among both men and women, assaults are the leading cause of death in the 15 to 29 age group. Of all deaths recorded, nearly 60% are caused by assault, and intention is indeterminate in another 23%. Both groups include deaths caused by firearms, cutting objects, and drug use. The leading cause of death among women is also assault (40.9%), followed by traffic accidents (33.4%).
- 1.9 The youth employment indicators are equally concerning. According to the most recent PNAD, unemployment among young people ages 15 to 24 in the state of Rio de Janeiro was 21.9% in 2009—above the national average of 11.1%. The survey also found that 13.3% of 18-to-24-year-olds neither attends school nor has a job, again above the national average of 11.1%. The situation for young people living in favela communities shows certain traits in terms of workforce participation—which is similar for young people whether or not they live in favelas—as well as in terms of quality of employment, which for them is much more precarious, owing to low remuneration and more informality. The patterns of inactivity and unemployment are gender-differentiated, with women accounting for 70% of 15-to-24-year-olds who neither attend school nor have a job. Of the total number of men in this age group, 11.8% are inactive, while 26% of all women in the group fall in this category.
- 1.10 **Lack of services to meet the needs of young people.** The magnitude of these problems can largely be explained by the lack of programs and services that can absorb youth demand, and by weaknesses in the strategies used to bring these offerings to the communities, awaken youth interest in participation, and deliver responses that can compete with other incentives and align with their expectations. There is a significant coverage gap in the most important areas; for example, three pacified territories have no secondary school offerings.⁵ A series of projects—aimed

³ The Brazilian Institute of Geography and Statistics defines a “substandard agglomeration” as a group of at least 51 household units on recently occupied land owned by third parties, generally settled in a dense and disorganized manner, and mostly lacking basic utilities. This unit of analysis was used as a proxy for favela areas.

⁴ Although homicide is not the only indicator used to determine the rates of violence in a city or country, it is the one most widely used because of its high visibility and its tendency to be reflected in the figures on violent crime.

⁵ *Batam, Cidade de Deus e Complexo do Alemão*. See Gondim, Teixeira, footnote 2.

at addressing the problems of low performance, age-grade distortion, and content relevance that define a framework of goals for each school in terms of academic achievement and advancement—have poor coverage and have not focused on the program intervention areas. There is a notable preponderance of night school (80%), where the quality of education is inferior to that of other institutions,⁶ and of schools shared with the municipal school system that are designed for children and preadolescents (74%). There are no disaggregated data for estimating the size of the gap in health services delivery, but an examination of the Family Health Program (a strategy for basic health care that uses multiprofessional teams based in community service units) reveals that, while the program has 20% coverage statewide, it reaches only 13% of the general population in the município of Rio de Janeiro. Of added concern is the weakness of the existing health protocols, which do not adequately include criteria for serving the adolescent population. Job placement services also present weaknesses, as evidenced by the fact that only 30% of people who apply receive referrals in Rio de Janeiro, where the number of job openings is only 15% of the demand. To further exacerbate the situation, only 38% of job openings are filled, reflecting a mismatch between applicant profiles and employers' needs, as well as inadequate training services. Moreover, IETS data show that access to social assistance programs for families living in favelas is well below the average for the município, largely due to the absence of Social Assistance Referral Centers. In 2010, the percentages of families in the favelas of Manguinhos, Rocinha, and Complexo do Alemão who were Bolsa Familia beneficiaries were 10%, 3.8%, and 8.7%, respectively.

- 1.11 **The response of the Government of Rio de Janeiro.** Restoring the rule of law and the disabling drug trafficking networks and organized crime are high priorities on the public safety agenda. The UPPs in Rio de Janeiro have provided the emerging model in that regard, which basically consists of recovering areas dominated by organized groups involved in the illegal drug trafficking economy. The goal of creating conditions for effective social inclusion of young people far exceeds public safety considerations and involves social and social welfare policies. For this reason, Rio's governor has commissioned the State Department of Social Welfare and Human Rights (SEASDH) to coordinate policy and implement measures to improve living conditions for young people in territories that have a UPP. The Government of the State of Rio de Janeiro has requested the Bank's support in this regard for developing an integrated youth services program in areas currently being pacified.
- 1.12 **An integrated services system with quality standards.** The available information indicates that the principal problem for young people in the favelas is their weak linkage to the services offered. This creates a scenario in which many young people have no institutionally provided protective factors to contend with risky conditions in their neighborhoods, and they have few significant bonds that reinforce or modulate

⁶ In actual practice, night school provides two-hour daily classes.

risk prevention practices (peers or adults acting to contain risk). Therefore, decreasing vulnerability lies in ensuring effective conditions for functional incorporation and creation of valuable bonds aligned with prevention or removed from risk. This program uses an intervention model designed to stop young people who are headed down a risky path and to strengthen inclusive life plans. To that end, it proposes aligning the supply of social services with young people's needs, emphasizing the idea of institutional coordination of services and ensuring sustainable matching of youth and services.

- 1.13 Models aimed at bringing the services to the beneficiaries attempt to get better results for those whose exclusion makes them resistant to and unlikely to use the services. The integrated youth services model proposed under this program responds precisely to this tendency by personalizing the intervention through mentoring and counseling for young people, in the context of coordinated services in their area. The model is unprecedented in the Brazilian context, involving a commitment to implementing this service mechanism based on flexible responses differentiated according to the needs of young people, with an option for personalized support from mentors to persuade them to commit to adopting healthful, safe, and constructive behaviors. The counseling promotes psychosocial evaluation, analyzes the initial reason for the visit, is responsible for promoting interest among young people, and determines which type of response under the model is the most appropriate for each youth, while the mentor establishes a deeper bond to sustain a more prolonged support process due to the complexity of the situations identified. Different flows can be established, depending on the case, as determined based on the analysis by the counselor that first has contact with the individual. The series of professionals can provide social guidance, psychological support, and socio-labor consulting, as well as provide longer support, when pertinent, through mentoring (see [electronic link](#)).
- 1.14 **An option for discouraging risk behaviors in young people.** Several experiences have shown that, when properly prepared and adequately supervised mentors work with young people in stable, regular encounters, these adult figures can become important factors in protecting youth who are most vulnerable to risk or who lack positive adult influences at home.⁷ Mentors can encourage them to set and achieve goals⁸ and to forgo risk behaviors such as dropping out of school, participation in violent situations, and unsafe sexual practices.⁹

⁷ DuBois David, Bruce E. Holloway, Jeffrey C. Valentine, and Harris Cooper. 2002. *Effectiveness of Mentoring Programs for Youth: A Meta-Analytic Review*. *American Journal of Community Psychology*. Volume 30, Number 2.

⁸ Keating Lisa, Michelle Tomishima, Sharon Foster, and Michael Alessandri. 2002. *The Effects of a Mentoring Program on At-Risk Youth*. *Journal of Adolescence*, Vol. 37).

⁹ Cunningham, W. et al. "Establish Programs in which Caring Adults Mentor At-risk Youth." 2008. *Youth at Risk—Advance Conference Edition*. The World Bank, Washington, D.C.

- 1.15 Most comprehensive studies of youth programs with mentors were derived from experiences in the United States, Canada, and the United Kingdom. The design of these studies varies considerably, however, making it difficult to compare their effectiveness.¹⁰ Such studies are usually designed to address very specific issues—e.g., to improve academic performance, stop drug use, or substitute violent behaviors—but they have the ability to address several areas of need, and therefore help to achieve goals in different environments.¹¹ Despite the positive results of these interventions, evidence of their long-term effect remains limited. However, a number of useful lessons can be drawn to aid in the design of this program, as discussed below.
- 1.16 **Opportunity for improving socioeducational outcomes.** The most widely known mentoring experiences were applied in the field of education. The influence of motivational factors and the creation of nearby support mechanisms increase the likelihood that young people will commit to educational processes or job training, help identify constructive options related to investing in education, and seek ways to improve employment conditions.¹² One of best-known cases is the Perach Mentoring Project, which has shown that this model can successfully lower dropout rates, encourage learning, raise cognitive levels, and improve young people's attitudes towards school, home life, and their future.¹³
- 1.17 **Opportunity for dissociating youth from violent situations.** Some evaluations have shown that the quality bonds forged in mentoring programs in the United States, such as the Mentor-implemented Violence Prevention Intervention for Assault-injured Youth Program¹⁴ and the Buddy System Program, successfully reduced levels of violence and crime among participants, and also produced additional effects such as improved relationships with peers and family, increased self-esteem, and better perception of social support.¹⁵ The support of significant figures who promote quality relationships and good treatment is a factor in protecting against the effects of violence.¹⁶ In the absence of positive mentors in the

¹⁰ Rhodes, Jean. 2008. *Improving Youth Mentoring Interventions through Research-based Practice*. Springer Science+Business Media, *Am J Community Psychol* 41:35–42. DOI 10.1007/s10464-007-9153-9.

¹¹ Posick, Ch., and Klofas, J. "Mentoring and Crime: A Review of the Literature." *Working Paper*. 2006-01. Rochester Institute of Technology. Center for Public Safety Initiatives.

¹² Two positive examples of mentoring programs that have an impact on skills and perception of employability among young people are *Career Beginnings* (Cave, G., & Quint, 1990) and *JOBSTART* (Cave, G. & Doolittle, 1991).

¹³ Tierney, J.P., Grossman, J.B. & Resch, N.L. (1995). *Making a Difference: An Impact Study of Big Brothers/Big Sisters*. Philadelphia: Public/Private Ventures.

¹⁴ Cheng TL, Haynie D, Brenner R, Wright JL, Chung S, Simons-Morton B. (2008). *Effectiveness of a Mentor-implemented, Violence Prevention Intervention for Assault-injured Youths Presenting to the Emergency Department: Results of a Randomized Trial*. *Pediatrics*, 122: 938-946.

¹⁵ Karcher MJ (2008). *The Study of Mentoring in the Learning Environment (SMILE): A Randomized Evaluation of the Effectiveness of School-based Mentoring*. *Prevention Science*, 9(2), 99-113.

¹⁶ Guerra, Nancy, 2005. "Youth Crime Prevention," *The World Bank*, Washington, D.C.

community, outside figures can stimulate substitution of socially aggressive responses and decisions linked to practices that are unsafe, dangerous, or discouraging to future opportunity.

- 1.18 **Opportunity for discouraging undesirable behaviors.** The impact evaluation from the Big Brothers/Big Sisters of America program shows after 18 months of sustained, systematic work (three four-hour meetings per month), youth participants were 46% less likely than the control group to use drugs and 27% less likely to abuse alcohol. Other effects have included a 52% lower probability of dropping out of school and 37% less truancy. At the same time, young people had more confidence in their academic performance, were one-third less likely to take part in a fight, and tended to have better relationships with their families (*Cunningham, 2008 and Tierney et al., 1995*). Grossman & Rhodes (2002)¹⁷ reported that adolescents who had a relationship of more than one year exhibited greater benefits than those who severed the relationship with their mentor earlier. *Herrera et al* (2007) concludes that this intervention can reduce the propensity to use drugs and alcohol, and can also bring about better attitudes towards school, fewer antisocial behaviors, and less involvement in crime and violence.
- 1.19 **Key factors for designing the intervention.** Among the factors mentioned most often in the literature on achieving outcomes through mentoring are the selection of activities and the mode of interaction with the mentors, as well as a minimum frequency of contact so as to ensure continuity. Other considerations fundamental to the design include investing in proper selection of mentors, ensuring their commitment for a specific period of time, arranging for them to have training, support, and technical supervision mechanisms, and creating an incentive for them to perform well. And lastly, the literature suggests that it is desirable to try for an early start on the youth mentorship process, and to seek an approach in which the support will be readily accessible and available when needed. These measures increase the likelihood that young people will commit to the process and make progress in setting and achieving significant goals, particularly if it involves substituting risk behaviors. The program provides for a basic circuit of standard care for all the young people, and as a result of the initial counseling, the path for each one is determined and that person is linked to the corresponding provider.
- 1.20 **Program alignment with the Bank's country strategy.** The project is aligned with the most recent update to the Bank's strategy with Brazil (document GN-2570), and is included in the 2012 Operational Program Report (document GN-2661-4). The strategy gives priority to implementing programs aimed at social inclusion and expanded opportunities for adolescents and young people, that offer comprehensive responses in light of the specific characteristics intrinsic to this stage of life, and that take into account the vulnerabilities and risks associated with poverty. The operation

¹⁷ Grossman & Rhodes. 2002. *The Test of Time: Predictors and Effects of Duration in Youth Mentoring Relationships*. *American Journal of Community Psychology*. Volume 30, Number 2, 199-219, DOI: 10.1023/A:1014680827552

is consistent with the Bank's and the country strategy's objective to "reduce poverty, promote social inclusion, and enhance social and regional equity." It will promote the strategy outcome of "inclusive education for youth and adults to ensure that they develop the basic skills necessary to find productive employment." The operation is also consistent with the Bank's Corporate Strategy (IDB-9 document AB-2764), and promotes the indicator for "people who benefit from a program to fight poverty." It is consistent with the Bank's strategy on social policy for equity and productivity (document GN-2241-1).

B. Objectives, components, and cost

- 1.21 The general objective of the program is to promote social and productive inclusion among young people ages 15 to 29 who live in areas with a UPP, by linking their demands to an improved and integrated supply of opportunities. It is initially expected to include approximately 20 UPP territories in the state of Rio de Janeiro and to serve 40,000 young people. The program will consist of four components.
- 1.22 **Component 1: Integrated youth services system.** The objective of this component is to have a model that properly channels the supply of services to young people's demand, through differentiated service and support strategies. It is divided into a subcomponent to introduce and target the integrated services system to young people, and a counseling and mentoring services subcomponent. The first subcomponent will finance, *inter alia*, the implementation of early detection systems for at-risk youth; information-gathering on available services in the different territories; implementation of the territorial coordination units that will manage networks and coordinate supply and demand;¹⁸ and provision of specific monetary support when necessary to enable some young people to participate in the program. The counseling subcomponent will finance, among other things, the creation of territorial units; direct-demand service; investigation of critical cases and handling of highly complex cases; development of methodology and implementation of a specialized counseling and mentoring service; development of skills and competencies for site professionals, technical specialists, and educators in the field; and creation of a record-keeping system for monitoring processes and outcomes.
- 1.23 **Component 2: Expansion and improvement of services for young people.** The objective of this component is to expand and improve social services by redesigning, adapting, or creating programs managed by state or municipal providers, with quality standards and easy-to-execute plans that will allow for interlinkage and complementarity. To better organize the activities, they have been divided into two subcomponents. Under the first subcomponent—integrated youth policies—the following principal activities will be financed: expansion and

¹⁸ Promoting demand is a key part of the comprehensive care model, because the counselors and mentors will be tasked with identifying on the ground those young people who are most vulnerable and who they are interested in bringing into the program, in coordination with other community actors who will also encourage those young people to participate.

improvement of offerings in educational reinforcement, advancement, and remedial learning; expansion and improvement of adolescent and youth health promotion, with an emphasis on sexual and reproductive health and healthful habits; expansion of offerings in job training, job placement, and productive inclusion; expansion of initiatives aimed at science and technology, sports, recreation, and culture; development of qualification courses for professionals in different fields who interact with young people; and creation and expansion of offerings to serve youth in the process of social reintegration. The ‘expansion of services’ subcomponent will finance, among other things, projects to build, repair, or adapt infrastructure for delivering social services covered under the program. Decisions on investment priorities will be made on the basis of the principal supply gaps for each territory, with priority accorded to education, health, and job support services.

- 1.24 **Component 3: Monitoring and evaluation.** The objective of this component is to create a mechanism for program monitoring and implementation and for evaluating results, including cost-effectiveness analyses. The activities to be financed include: (i) design, development, and implementation of a computerized system for data on services and service delivery; (ii) creation and execution of a project to evaluate the impacts of the program, in terms of certain services in particular or of methods linked to the integrated youth services system; and (iii) knowledge sharing and lessons learned.
- 1.25 **Component 4: Program administration.** The objective is to ensure that the SEASDH is able to manage the program efficiently and effectively.
- 1.26 **Cost and financing.** The total cost of the program is US\$84.55 million, of which US\$60 million (70%) will be financed by the Bank and US\$24.55 million (30%) by the local counterpart, as shown in Table I-1.

C. Key indicators in the Results Matrix

- 1.27 The cost-benefit analysis of the program simulated the potential monetary benefits to a young person, given the implementation costs. It took into account the reduction in the principal vulnerabilities to be addressed by the intervention, in particular the reduced probability of teen pregnancy, improved educational achievement, and increased job placement. Generally, it found that all of the activities would have positive impacts on the present value of the benefits, and the results as summarized by the internal rate of return (IRR) confirm that trend. The net present value, discounting a reference rate of 12% under various scenarios, varied from 17.5 to 27.4, and the return was corroborated by an IRR of 14.1% to 15.3% (see [Economic Analysis](#)). The indicators in the Results Matrix can be used to analyze changes with regard to the principal risk behaviors addressed by the intervention. Principal among these are the incidence of pregnancy in the under-18 age group, the rate of inactivity by age group, the dropout rate, perceived self-efficacy and self-control. Other indicators can determine the extent to which the program can work with the most at-risk youth, including those released from the prison system.

Table I-1. Total program budget, by component (in thousands of US\$)

No.	Description	Source (US\$000)		Cost (US\$000)	%
		IDB	Local	Total	
Component 1 – Integrated youth services system		26,692	11,681	38,373	45.38%
Subcomponent 1.A: Integrated services system governance		20,871	3,804	24,675	64.3%
1a.1	Establishment of 25 territorial management units	3,750	3,804	7,554	31%
1a.2	Support for youth in mentoring (scholarships)	13,728	0	13,728	56%
1a.3	Support methodologies and instruments for teams	2,203	0	2,203	9%
1a.4	Social communication	1,190	0	1,190	4%
Subcomponent 1.B: Youth counseling and mentoring		5,821	7,877	13,698	35.7%
1b.1	Mentoring services	2,449	3,302	5,751	42%
1b.2	Counseling services	3,171	4,393	7,564	55%
1b.3	Technical supervision of service team	201	182	383	3%
Component 2 – Expansion and improvement of services		24,354	11,896	36,250	42.87%
Subcomponent 2.A: Integrated policies for youth		18,802	2,102	20,904	57.7%
2a.1	Projects integrated with the educational system in the 20 territories	6,024	0	6,024	29%
2a.2	Integrated projects for job placement in the 20 territories	0	1,807	1,807	9%
2a.3	Projects integrated with the health system in the 20 territories	6,747	0	6,747	33%
2a.4	Integrated projects for cultural opportunities	2,711	0	2,711	13%
2a.5	Integrated projects for inclusion in sports and recreation	1,205	0	1,205	6%
2a.6	Integrated projects for inclusion in science and technology	1,807	0	1,807	9%
2a.7	Projects for reintegration of young people released from the prison system	308	295	603	4%
Subcomponent 2.B: Expansion of service		5,552	9,794	15,346	42.3%
2b.1	Expansion and improvement of spaces (works and equipment)	5,552	9,794	15,346	100%
Component 3 – Monitoring and evaluation		2,606	0	2,606	3.08%
3a.1	Work plan for monitoring	656	0	656	25%
3a.2	Studies and publications on youth	816	0	816	31%
3a.3	Program impact evaluation	1,134	0	1,134	44%
Component 4 – Program administration		3,813	973	4,786	5.66%
A1	Program management unit	3,543	973	4,516	94%
A2	External auditing	270	0	270	6%
Contingencies		2,535	0	2,535	3.00%
Grand total		60,000	24,550	84,550	100.00%

II. FINANCING STRUCTURE AND RISKS

A. Financing instruments

- 2.1 The investment loan, drawn on the Bank's Ordinary Capital, will have the following conditions: (i) LIBOR-based interest rate; (ii) 25-year amortization period;

(iii) 30-month period for physical start-up of works; and (iv) four-year disbursement and grace period.

B. Environmental and social safeguard risks

- 2.2 In view of their small scale (800 to 2,400 m²) and the limited number and urban location of the buildings planned, the potential environmental impacts can be regarded as small, localized, short-term, and typical of small works, and therefore easily controlled and managed using standard environmental procedures. Consequently, at the 13 May 2011 Eligibility Review Meeting this was classified as a Category “B” operation. Its recommendations have been fulfilled and are summarized in the Environmental and Social Management Report (ESMR). In regard to the environmental permit process, the works must comply with Brazilian environmental regulations and the specific management and monitoring requirements indicated in the program Operating Regulations, in keeping with the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703; see [ESMR](#)).
- 2.3 The program will have significant positive social impacts through its promotion of full social, job, and health integration of vulnerable youth in Rio de Janeiro, especially Afro-descendants. In adherence to the Bank’s Operational Policy on Gender Equality in Development (document GN-2531-10), the program will incorporate proactive and preventive measures to serve young men and women at risk, in terms of health, education, employment, gender discrimination, and violence prevention.
- 2.4 There will be no involuntary resettlement of the population, since the works will be carried out in government-owned areas. In consideration of the risk of disasters associated chiefly with flooding and potential landslides, building of the centers will be prohibited in risk areas, and the executing agency will be required to include a statement to that effect in the bidding documents, works contracts, and the technical documentation submitted to the Bank prior to the work, in adherence to the Disaster Risk Management Policy (Operational Policy OP-704).

C. Fiduciary risks

- 2.5 Based on the risk evaluation and the assessment of the SEASDH’s institutional capacity, the following risks were identified: (i) delayed execution due to a budget shortfall, or bidding processes abandoned because of price increases or dollar volatility, which would be mitigated by continued monitoring of obligations and of pending payments compared to available balances in the budget and the contracted resources; (ii) unavailability of qualified staff and lack of familiarity with policies, rules, and procedures for program execution, which would be mitigated by: (a) creating and appointing staff to form the Program Management Unit (PMU); (b) hiring a management firm to handle technical and operational execution in support of the PMU; (c) conducting training workshops for the team, including the Bidding Committee; and (d) developing and implementing program Operating Regulations; (iii) lack of an information system to support project execution, which

would be mitigated by developing and/or procuring a computer system to manage and monitor program activities; and (iv) internal control system in its initial stages, for which strengthening measures will be provided during the course of the project.

D. Other risks

- 2.6 **Intersectoral management and coordination.** The program calls for considerable effort to coordinate and create links between different public agencies and civil society organizations, which could delay project execution and create gaps in social services offerings in some communities or programmatic areas. The SEASDH's technical team will be strengthened to ensure intersectoral coordination. There is provision for an Intersectoral Program Committee (IPC) at the strategic level of the Government of Rio de Janeiro, and for creating management agreements to ensure that young people have priority access to its services.
- 2.7 **Integrated services model.** Due to the unprecedented nature of the program and the considerable protagonism to be assumed by the professionals in their roles as counselors and mentors, there is a risk of producing a discretionary reaction among the professionals with regard to the heterogeneity of responses given by the beneficiaries. To prevent this from occurring, the first year of the program provides for the design of working methodologies and individual files for service to the young beneficiaries, technical training sessions for everyone involved, and hiring of supervisors to assist at the local level, to achieve maximum normalization and standardization of activities in the field.

III. IMPLEMENTATION AND ACTION PLAN

A. Summary of implementation measures

- 3.1 **Executing agency.** The executing agency will be the State of Rio de Janeiro through the SEASDH, which will coordinate the sectors and teams for program implementation. The PMU, to be created directly under the Executive Secretariat of the SEASDH, will be responsible for coordinating the program and the teams in the territorial management units, and planning, monitoring, and performing program-financed activities. It will also be the program's official interlocutor with the Bank and with other public and private organizations. Responsibility for strategic coordination and technical administration of program activities will be given to the IPC, chaired by the head of the SEASDH and consisting of representatives of the other state-level departments involved in program execution, such as education, health, labor, culture, science and technology, sports, and Chief of Staff.
- 3.2 **Execution plan.** The program will have three levels of execution: (i) strategic level: the IPC will be responsible for establishing and supporting the specific lines for cooperation between the program and each state department, which will be defined in Management Agreement cooperation instruments. These instruments will specify each party's responsibilities, activities to be carried out, estimated budget, execution timetable, and targets; (ii) operational and general administrative level: the PMU will

be responsible for coordination with the IPC and for fiduciary management of the program, including budget preparation, and procedures for authorization and recognition of expenditures and related payments to be made directly by the SEASDH at the request of the PMU; contract monitoring; support for procurement processes; disbursement of resources and rendering of accounts; preparation of financial reports; preparation of disbursement requests; and presentation of information for audits. A management firm will be hired for program execution to assist the PMU in matters of accounting, finance, and procurement. The program will be audited by an external firm and will have a system to manage information, monitor activities, perform controls, and generate the reports required by the Bank; and (iii) operation level in the territories: the territorial management units will implement the integrated services model in the pacified territories according to the program intervention timetable. A Territorial Intervention Plan and Diagnostic will be completed prior to entering the communities in order to justify and specify the goals and beneficiaries of the activities. The Territorial Intervention Plan and Diagnostics will be used to inform the scope of activities and goals of the management agreements. **The following will be conditions precedent to the first disbursement: (i) the governor's decree, formally establishing the program and its three management levels; (ii) appointment of the general coordinator and the principal coordinators (technical and financial) of the PMU; (iii) model cooperation instruments between the SEASDH and the other departments that will have a role in program execution; (iv) official publication providing evidence of the entry into effect of the program Operating Regulations, according to the terms approved by the Bank; (v) publication of the notice for the bidding to hire the program management firm; and (vi) terms of reference for hiring the auditing firm and for procurement of the information system to manage and monitor the program.** The following will be special conditions for execution of Component 2: (i) publication of the joint resolution between SEASDH and the respective state department; (ii) entry into effect of the agreement between the borrower and the Município of Rio de Janeiro for execution of the health activities under Component 2; and (iii) presentation of the Territorial Intervention Plan and Diagnostic to the Bank's satisfaction.

- 3.3 The delivery of social services and programs for youth will be ensured through the signing of a management agreement between the SEASDH and the other sector-related departments to finance educational, employment, health, sports, and cultural activities, defined according to the analysis of needs against the supply and demand in each territory, as indicated in the Territorial Intervention Plan and Diagnostics. Monitoring of the achievements and outcomes of these processes will be supported by the work of the operating team in the territories, represented by the territorial management units.
- 3.4 **Readiness.** The project profile was approved for Bank financing of US\$100 million. A subsequent resolution of the External Financing Commission set the Bank financing at US\$60 million.

3.5 The estimated disbursement schedule is presented in Table III-1.

Table III-1. Disbursements and execution period (in US\$)

	Year I	Year II	Year III	Year IV	Year V	Contingency	Total	%
IDB	3,069,298	20,609,511	15,051,039	12,658,463	6,076,689	2,535,000	60,000,000	70%
Counter part	250,602	1,155,570	7,834,805	10,166,690	5,083,333		24,500,000	30%
Total	3,319,900	21,765,081	22,894,844	22,825,153	11,160,022	2,535,000	84,500,000	100%
%	3.9%	25.8%	27.1%	27%	13.2%	3%	100.00%	

3.6 **Procurement.** Goods, works, and services will be procured in accordance with Bank policies (documents GN-2349-9 and GN-2350-9 dated March 2011). In accordance with the analysis of the executing agency's capacity, the Bank will review ex ante all procurements, contracts, and selection of consultants for each method used, regardless of the amount of expenditure against the loan resources, during the first two years of the program. At the end of the second year, the Bank will conduct an evaluation to determine the appropriate procurement review method.

3.7 **Advances.** The program resources may be disbursed through advances, based on the financing schedule planned by the executing agency and presented to the Bank. The PMU will present the disbursement request to the Bank, along with a plan of expenditures by activity listed in the annual work plan and a cash flow projection for the 180 days following each six-month period in the calendar year.

3.8 **Retroactive recognition of expenditures and advance contracting against the financing.** The Bank may recognize expenditures by the borrower for up to US\$2 million against the local counterpart contribution that were made up to 18 months prior to the date of approval of this operation by the Bank's Board of Executive Directors, but not prior to the date of approval of the Project Profile by Management (10 June 2011). These procedures are consistent with Bank policies on recognition of expenditures (Operational Policy OP-504).

B. Summary of results monitoring measures

3.9 The semiannual progress reports will indicate the achievements for each component and the overall program performance, against the indicators given in the Results Matrix. The monitoring activities will focus on: (i) the processes involved in implementing the integrated services model in the various territories, generating lessons learned in intersectoral management and addressing the demands of young people; (ii) the management agreements with each state department; and (iii) the Territorial Intervention Plan and Diagnostics, which will be updated regularly. The Bank will support the PMU in system design, definition of variables, and information flow prior to signature of the loan. The system is expected to be implemented during the first year of execution, and ready for entering data on the first seven territories. The indicators will generally be obtained from the systems used by the state departments. The semiannual progress reports will be checked

against the planned targets in the annual work plan, the management agreements, and the Territorial Intervention Plan and Diagnostics.

- 3.10 **Evaluation.** The evaluation is expected to focus on two main questions: (i) what is the project's value added for young people individually, by verifying whether they improved their productive, socioemotional, and coexistence skills; and (ii) what is the value added of the intensive counseling activities implemented under the project in the most vulnerable youth population, by verifying whether the efforts improved indicators of self-efficacy and rates of risk behavior such as drug abuse and violent behavior. It will also be ascertained whether the rate of program dropouts declines with close counseling support. The findings of the impact evaluations will be supplemented with process evaluations.

CONFIDENTIAL

RESULTS MATRIX¹

Objective	To promote social and productive inclusion among young people ages 15 to 29 who live in areas with a Police Pacification Unit (UPP), by linking their demands to an improved, integrated supply of opportunities. According to a preliminary estimate, the project will include 20 favela communities currently undergoing pacification.		
Impact indicators²	Baseline	Target	Source
1. Difference between the incidence of pregnancy among young women in favelas served by the program and those in favelas not served by the program. ³	0	6 percentage points	Program record-keeping and monitoring system. Tracking surveys.
2. Difference between the rate of inactivity among young people served by the program and young people in favelas not served by the program. ^{4 5}	0	15 percentage points	Program record-keeping and monitoring system. Tracking surveys. Sociodemographic surveys (IETS, PNAD)
3. Difference between the Perceived Self-Efficacy Scale for young people in favelas served by the program and young people in favelas not served by the program.	0	20 percentage points	Program record-keeping and monitoring system. Tracking surveys, including the Perceived Self-Efficacy Scale. ⁶
4. Percentage of those surveyed in the intervention areas who report satisfaction with youth behavior and community participation.	To be defined in baseline survey.	70% satisfaction	Survey on favela residents' satisfaction in the project intervention areas.

¹ All indicators in the results matrix refer specifically to the population served by the program.

² All indicators are available for specific variables, i.e., by gender (data for the male group and the female group), race (white, brown, black), and age group (15 to 18, 19 to 24, and 25 to 29 years).

³ Young people up to 18 years of age.

⁴ Young people who neither work nor attend school.

⁵ Considers two measurements: comparison between the number of program beneficiary youths who neither work nor attend school and the control group, and comparison between the program beneficiaries upon entering and leaving the program.

⁶ A multi-item tool that measures one's confidence in coping with situations in daily life. See: Social Inclusion and Opportunities for Youth in Rio de Janeiro (BR-L1287). Monitoring and evaluation plan.

Final outcome indicators			
5. % of young people who meet the objectives defined in their work plan (service records).	0	70%	Program record-keeping and monitoring system.
6. % of inactive young people who return to the educational system or enter the job market. ⁷	0	70%	Program record-keeping and monitoring system.
7. Percentage of young people who return to school and finish the academic year (who graduate and receive the certificate).	0	50%	Program record-keeping and monitoring system.
8. Percentage of young people enrolled in an occupational training course who complete the course and receive a certificate.	0 ⁸	85%	Program record-keeping and monitoring system.
9. Percentage of young people who complete occupational training courses offered by the program and obtain a job.	0 ⁹	40%	Program record-keeping and monitoring system. Sector statistics from the state department of labor.
10. Percentage of young people who complete the mentoring and counseling process.	0	85%	Program record-keeping and monitoring system.
Intermediate outcome indicators			
11. School dropout rate for pregnant girls and teen mothers.	78% ¹⁰	40%	Program record-keeping and monitoring system. Sector statistics from the state department of education.
12. Number of young people having completed socioeducational measures who receive mentoring. ¹¹	0	60%	Program record-keeping and monitoring system.

⁷ Refers to youth beneficiaries of the program who were inactive at the beginning (did not work or attend school) and changed status while in the program. The technical standards for the program must indicate the minimum requirements that counselors and mentors must take into consideration before notifying the system about a change of status, including that it be verifiable and that the youth must remain in the new occupation for some period of time. The specific parameters will be set during the technical standards design phase.

⁸ The average graduation rate from this type of course is 70%.

⁹ Recent SEASDH records indicate that the employability percentage among young people trained by state programs is approximately 20%.

¹⁰ This figure represents the average percentage of school dropouts among pregnant girls and adolescent mothers, as available in the state school system and reported by the SEASDH, subject to revision and adjustment after baseline data-gathering and program startup.

¹¹ Evaluated by a counselor, referred for ongoing monitoring and have begun to work with a mentor.

13. Number of young people having completed alternative sentences or leaving prison who receive occupational counseling or mentoring.	0			60%			Program record-keeping and monitoring system.	
	Base-line	Year 1	Year 2	Year 3	Year 4	Target	Source	Comments
Component 1: Implementation and governance of the integrated youth services system								
14. Protocols signed by the departments to ensure that young people have priority access to their programs.	0	10	1	0	0	11	Cooperation agreements and resolutions signed by the SEASDH and the other departments	SEEDUC, SES, SETRAB, SEC, SEEL, SEAP, SECT, Chief of Staff, EMOP, municipal department of health, Degase
15. Management and monitoring protocols signed by the service providers and program coordinator.	0	8	0	0	0	8	Cooperation agreements and resolutions signed by the SEASDH and the other departments	SEEDUC, SES, Municipal department of health, SETRAB, SEAP, Degase, SEEL, SEC
16. Percentage of young people who participate in counseling or mentoring and have access to the priority offerings that the other departments have agreed upon with the SEASDH.	0	70%	80%	90%	100%	100%	Program record-keeping and monitoring system. Sector statistics from the state-level departments.	
17. System for identifying priority cases in operation. ¹²	0	1				1	Technical standards for program operation.	

¹² System that will prioritize cases with high risk exposure (mechanism for early identification of youth at risk of school dropout, youth having completed socioeducational measures, youth who leave the prison system, pregnant women, and adolescent mothers and fathers.

18. Resolutions signed with the departments participating in the program and other government agencies for transferring funds to provide services under the program.	0	3	6	6	6	6	Resolutions signed by the state-level departments and other agencies.	SEEDUC, SES, department of health, municipality, EMOP, SEC, Chief of Staff
Component 1: Specialized youth counseling and mentoring service								
19. Number of territorial units for youth services in operation.	0	7	14	25	25	25	SEASDH	
20. Number of people trained to work with young people in the program. ¹³	0	171	171	211	0	553	SEASDH	Additional training will be given only to new professionals coming in due to turnover of counselors and mentors.
21. Number of new young people served by the integrated services system through counseling (without mentoring).	0	2,800	7,000	11,400	13,600	29,580	Program record-keeping and monitoring system.	A dropout rate of 15% was used.
22. Number of new young people served by the integrated services system through mentoring.	0	420	735	1,395	1,230	3,213	Program record-keeping and monitoring system.	A dropout rate of 15% was used.
23. Percentage of young people with a complete file in the program record-keeping and monitoring system.	0 ¹⁴	70%	90%	90%	90%	90%	Program record-keeping and monitoring system.	

¹³ Sector-based social services agencies, managers, coordinators, mentors, counselors, and supervisors.

¹⁴ Assessment information, details of the intervention, and case closure.

Component 2: Expansion and improvement of opportunities for young people								
24. Percentage of slots available in the occupational training programs for young people in counseling or mentoring. ¹⁵	0	20%	25%	30%	30%	30%	Program record-keeping and monitoring system. Sector statistics from the state-level departments.	
25. Percentage of slots available in the educational programs for young people in counseling or mentoring. ¹⁶	0	20%	25%	30%	30%	30%	Program record-keeping and monitoring system. Sector statistics from the state-level departments.	
26. Number of professionals in health, education, and social welfare (social workers) trained in specialized services for young people.	0	100	100	100	0	300	SEASDH	
27. Percentage of young people who access drug or alcohol prevention, treatment, or rehabilitation services.	0	20%	25%	30%	35%	35%	Program record-keeping and monitoring system. Sector statistics from the state department of health.	
28. Percentage of young people enrolled in at least one of the program's cultural, sports, or recreational programs.	0	25%	30%	40%	50%	50%	Program record-keeping and monitoring system.	

¹⁵ Refers to the job and employment assistance programs with which the program signs management protocols and agreements.

¹⁶ Idem note 16.

Component 3: Monitoring and evaluation								
29. Percentage of activities completed by the program and its partners that are recorded in the monitoring system. ¹⁷	0	60%	100%	100%	100%	100%	Program record-keeping and monitoring system.	
30. Number of public policy agencies and programs for young people who participate in the information activities conducted by the program. ¹⁸	0	171	342	553	800	1,865	SEASDH	
31. Number of investigations and studies on young people in the covered territories disseminated and posted on at least one website.	0	2	2	2	2	8	SEASDH	
32. System of indicators for monitoring and evaluating the program outcomes established and kept updated. ¹⁹	0	80%	90%	100%	100%	100%	SEASDH	

¹⁷ During the system design phase, a procedure will be established to measure the extent of record-keeping for activities to be included in the protocols between the different agencies as a condition of completion.

¹⁸ Socialization of findings from surveys and evaluation.

¹⁹ Idem Note 18.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil
Project number: BR-L1287
Name: Social Inclusion and Opportunities for Youth in Rio de Janeiro
Executing agency: Department of Social Welfare and Human Rights (SEASDH)
Prepared by: Monica Merlo (Financial Specialist) and Marília Santos (Procurement Specialist)

I. EXECUTIVE SUMMARY

The fiduciary management evaluation of the proposed project was based on the executing agency's institutional capacity as determined by the Institutional Capacity Assessment System, a risk workshop with executing agency staff, and meetings with the project team and key staff of the SEASDH. Also taken into consideration was the Bank's experience with similar projects at the federal, state, and municipal levels.

Based on the evaluation of the executing agency, fiduciary agreements in regard to procurement and financial management were prepared for use during program execution.

The fiduciary context of the country and of the executing agency were taken into account in establishing the fiduciary agreements. The most noteworthy of these considerations are summarized in the following paragraphs.

II. FIDUCIARY CONTEXT OF THE COUNTRY

Brazil has robust country fiduciary systems that facilitate proper management of administrative, financial, control, and procurement processes, and adhere to the principles of transparency, economy, and efficiency. These systems must continue to be strengthened in order to meet the new fiduciary requirements. Therefore, the Bank's fiduciary strategy for Brazil is aimed at progressive, sustainable use of the country's fiduciary systems.

It is noteworthy that the Bank has worked with the federal government so that the Integrated Financial Management System will be used as a comprehensive tool for financial management, accounting, and reporting on operations carried out with the Bank. Another important consideration comes in the fact that the control function is handled by the Federal Ministry of Internal Control for all loan operations carried out with the federal government. The third aspect of note is related to the Bank's gradual increase in the use of country public procurement systems, primarily ComprasNet (electronic reverse auction system administered by the Brazilian federal government).

III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

The executing agency will be the Department of Social Welfare and Human Rights (SEASDH), through a program management unit (PMU). The unit will be created directly under to the head of the SEASDH, who will be responsible for coordinating, planning, monitoring, and implementing the project-related activities and actions financed with Bank resources. For matters involving program execution, the PMU will also be the SEASDH's interlocutor with the Bank and other public and private organizations that participate directly or indirectly in program execution and monitoring.

Responsibility for strategic coordination and technical administration of program activities will be given to the Program Management Committee (PMC), consisting of representatives of the other state departments involved in program execution.

Since this is a state-run project, it will be governed by the national laws on public administration, including the Fiscal Responsibility Act.

Procurement and contracting are governed by Law 8,666/93, and bidding is conducted through the state system. The SEASDH has a Bidding Committee, which is responsible for its procurement and contracting processes and will also be in charge of all procurement processes under the program.

In order to implement program activities, it will be necessary to strengthen and train the team with regard to the Bank's policies, rules, and procedures and to develop and/or procure a computer system to perform the controls and generate the reports required by the Bank.

The PMU will be responsible for coordinating the PMC and the state departments and branches involved, and for the fiduciary management of the operation, including budget preparation and the authorization and recognition of expenditures and the respective payments.

In view of the findings of the Institutional Capacity Assessment of the SEASDH, and particularly the lack of qualified staff, it is strongly recommended that an agency be hired to support program execution.

IV. ASSESSMENT AND MITIGATION OF THE FIDUCIARY RISK

On the basis of the risk evaluation and the assessment of the SEASDH's institutional capacity, the following fiduciary risks were identified: (a) Macroeconomic conditions: price increases plus dollar volatility can lead to a budget shortfall and bidding processes being declared void and result in delayed implementation, which can be mitigated by continued monitoring of obligations and of pending payments compared to available balances in the budget and the contracted resources (loan contract); (b) unavailability of qualified staff and lack of familiarity with policies, rules, and procedures for executing Bank-financed programs, which can be mitigated by: (i) creating and appointing staff to form the PMU; (ii) hiring a support agency to provide technical and operational advice to the PMU on accounting, financial, and procurement matters; (iii) conducting a procurement workshop prior to loan execution to ensure that the team from the PMU's Bidding Committee knows the specifics of the procurement procedures; (iv) conducting and/or

participating in IDB training sessions; and (v) developing and/or procuring a computer system to manage and monitor program activities, perform the controls, and generate the reports required by the Bank; (c) since many departments will be involved in program execution, the PMU may have difficulty managing implementation and fulfilling the schedule of activities, which can be mitigated by: (i) creating a Program Management Committee consisting of representatives appointed from the departments involved and chaired by the deputy governor of the state; (ii) signing a legal instrument previously agreed upon with the Bank that establishes the responsibilities of each department involved; (iii) holding events and meetings to disseminate information on the program; and (iv) developing and implementing program Operating Regulations; (d) the records and financial reports must be generated by the municipal accounting systems, designating the project as a cost center with required breakdown by investment category and source of financing, expressed in U.S. dollars, for which any necessary adaptation must be coordinated with the systems provider; (e) the project may encompass activities to strengthen internal control, and the program may operate as a pilot that includes controls for legality, project management, and outcome indicators, in particular for the 20 youth services units; (f) to conduct external control (the project's audited financial statements), an auditing firm acceptable to the Bank will be hired at least four months prior to the end of the first fiscal year to be audited, with provision for midterm visits. The firm will also audit the results of the work plans signed with the other departments involved in the activities implemented in the territorial service units, as well as the supporting documents for their expenditures.

V. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACT

- a. **Conditions precedent to the first disbursement:** (i) presentation of evidence of the formal establishment of the program, including: (a) creation of a Program Management Committee under the Executive Committee for Social Policy in the Pacified Territories; (b) creation and startup of the PMU; and (c) the activities being implemented in the territories – URL; (ii) appointment of a general coordinator and the other principal staff of the PMU; (iii) evidence of the hiring of a support agency to provide technical and operational advice to the PMU on accounting, financial, and procurement matters; (iv) presentation of the terms of reference or technical specifications for developing and/or procuring a computer system to manage and monitor the program activities, perform the controls, and generate the reports required by the Bank; (v) presentation of memoranda of the terms of cooperation to be signed by the SEASDH and the state departments that will participate in the activities provided for in Component 2; (vi) presentation of the memorandum of agreement to be signed by the SEASDH and the municipal government of Rio de Janeiro for execution of the health subcomponent of Component 2; (vii) presentation of the program Operating Regulations and terms of reference for hiring the external auditing firm.
- b. **Exchange rate:** Prior to the negotiation mission, the borrower will notify the Bank with regard to its chosen option.

VI. PROCUREMENT AGREEMENTS AND REQUIREMENTS

1. Procurement

- a. **Procurement of works, goods, and nonconsulting services:** Works, goods, and services financed in full or in part with Bank resources will be procured in accordance with the Bank's Policies for the Procurement of Goods and Works Financed by the Bank (document GN-2349-9), dated March 2011. Goods and services with an estimated cost higher than US\$5 million will be procured using international competitive bidding (ICB); when the estimated cost is equal to or lower than US\$5 million, procurements may be carried out using national competitive bidding (NCB); and procurements under US\$100,000 may be carried out using price comparison (PC).

The Bank may also recognize the following procurement methods provided for under national law (Law 10,520/2002 – E-procurement Act) using loan proceeds: (i) electronic reverse auction, using the systems approved by the Bank for procurements of general goods and services with an estimated cost equal to or less than US\$5 million; (ii) price lists, for procurements of general goods and services with an estimated cost equal to or less than US\$5 million and whose listing was previously accepted by the Bank; and (iii) live reverse auction, for procurements of general goods and services with an estimated cost of less than US\$100,000. At any time during the program execution period, the Bank may eliminate the possibility of using one or more of the methods described in this paragraph.

- b. **Selection and contracting of consultants:** The selection and contracting of consulting services financed in full or in part with Bank resources will be carried out in accordance with the Bank's Policies for the Selection and Contracting of Consultants (document GN-2350-9), dated March 2011. The selection and contracting of consulting services with an estimated cost over US\$200,000 will require international advertising by way of United Nations Development Business online. Shortlists of consulting firms for work with an estimated cost of less than US\$1 million may consist entirely of Brazilian firms.
- c. **Selection of individual consultants** The selection and contracting of individual consultants financed in full or in part with Bank resources will be carried out in accordance with Section 5 of the Bank's Policies for the Selection and Contracting of Consultants (document GN-2350-9). Individual consultants will be selected on the basis of their qualifications to perform the work, based on a comparison of at least three candidates' qualifications. When the situation so provides, notices may be published in the local or international press in order to obtain background information on qualified candidates.
- d. **Advance contracting and retroactive financing:** The Bank may reimburse and recognize expenditures of up to US\$2.5 million against the financing and up to US\$2 million against the local counterpart resources, respectively, made

during the 18 months prior to the approval date of this operation by the Bank's Board of Executive Directors, in accordance with Operational Policy OP-504. These expenditures are related to the following activities: (i) works of the CRJs; (ii) upgrading of physical spaces in seven communities, in Biblioteca Parque, and in the PMU; (iii) development of the IT system; and (iv) contracting of maps of service offerings in the territories.

- e. **Direct contracting:** The program does not provide for direct contracting with loan resources.

2. Thresholds (US\$ thousands): The table below shows the contracting thresholds by method and expenditure category.

Works			Goods ¹			Consulting	
ICB	NCB	PC	ICB	NCB	PC	International advertising	Shortlist 100% national
≥ 25,000,000	< 25,000,000 & ≥ 500,000	< 500,000	≥ 5,000,000	< 500,000 & ≥ 100,000	< 100,000	≥ 200,000	< 1,000,000

3. Main procurements: The main procurements are presented in the program procurement plan in Appendix 1 to this document.

4. Procurement supervision: It was agreed that the Bank will review ex ante all procurements, contracting, and selection of consultants for each method used, regardless of the amount of expenditure against the loan resources, during the first two years of program execution. At the end of the second year, the Bank will conduct a midterm evaluation and issue a recommendation as to the review of other processes.

However, direct contracts and procurements, and those exceeding the Bank's threshold assigned to Brazil for international procedures, will always be reviewed ex ante, in accordance with the table presented in item 2 above.

5. Special provisions: (i) The PMU will update the procurement plan annually or as the Bank may require so as to reflect actual needs for program execution and the progress made; (ii) the procurement of goods and nonconsulting services under Law 10,520/2002, the Electronic Auction Act, will utilize systems recognized by the Bank for that purpose—in this case, ComprasNet or Banco do Brasil's e-bidding system.

6. Records and files: The program's records and files will meet the following minimum requirements:

- a. The files will contain original documentation filed in chronological order, sealed and with pages numbered accordingly.
- b. The files will be kept in a secure, restricted-access room dedicated solely to that purpose.
- c. There will be a registry of files.

¹ Includes nonconsulting services.

VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

1. Programming and budget

Brazil has a universal structured planning process for administration of the state governments in accordance with Brazilian government procedures.

Planning activities are coordinated by the state's Department of Planning and Management (SEPLAG), which consults with the other state departments to prepare a multiyear work plan encompassing four years. The plan is then approved by the Legislative Assembly (legislative branch).

SEPLAG is responsible for preparing a one-year budget guidelines bill, which sets the goals and priorities for the administration, including capital budget items for the next fiscal year and for preparation of the Annual Budget Act.

SEPLAG also carries out control and distribution for Budget, Accounting, and Treasury, and prepares an annual balance sheet of public accounts.

It is in this context that the SEASDH's annual programming and budget for external and counterpart financing will be prepared. Through its Planning, Budget, and Management Branch, the SEASDH will use these support tools for its planning process (multiyear budget, Budget Guidelines Act, Annual Budget Act, and the Integrated System for Budget Management to monitor the annual budget.

Notwithstanding the above, the SEASDH has no procedures, processes, or methodologies for monitoring the activities provided for in the program.

The Bank will reimburse eligible expenditures under the project in accordance with the budget lines specified and executed by the program. Processing of the 2012 Budget Act is well underway, which provides for an allocation of resources to the program (R\$17.16 million, equivalent to US\$10.66 million). In principle, this amount is regarded as consistent with the proposed investment schedule.

2. Accounting and information systems

The SEASDH uses the financial administration system operated by the state's Department of Finance to record all activities for which it is responsible.

The program activities will be carried out in that framework.

The systems currently being used in the state of Rio de Janeiro are the Management Information System and the Financial Administration System for States and Municípios (SIAFEM).

It is well known that a Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO) is underway in the state of Rio de Janeiro. Its goals include development of a platform within the current system for keeping records on the Bank's programs by component.

The project will use SIAFEM, which offers transparency and specific controls on budget execution. This module can be used to keep track of the project's accounting transactions.

Transactions will be recorded on an accrual basis, in accordance with international accounting standards. In order to monitor project execution and issue the information and financial statements required by the program, some provision will have to be made for adjustments, which are so far unavailable.

That fact, in combination with the shortage of personnel and the staff's lack of experience with projects of this kind, have led us to classify the risk associated with the program's accounting and financial records as high.

3. Disbursements and cash flow

The project will use the state's treasury system. Expenditures are subject to the financial and budget execution process; data related to formalizing it under the laws applicable to each stage—obligated, accrued, drawn, and paid—must be recorded in SIAFEM. The state uses the single account system to manage its financial obligations.

The program will operate in accordance with the Bank's disbursement methods, including advances, based on the financial programming planned by the executing agency and presented to the Bank.

The PMU will present the disbursement request to the Bank, along with a financial plan of expenditures for activities in the annual work plan and projected cash flow for the next 180 days. At least 80% of disbursements will be justified in the next request.

The SEASDH will present the project's initial financial plan to the Bank, including the disbursement schedule for the entire project, which may be updated annually.

Disbursements will be processed with preventive review of a copy of the supporting documents for payments and expenditures until an integrated system of records and financial information is introduced.

The Bank may consider verifying disbursements for specific projects under Component 2, by checking transfers made to the participating departments through SIAFEM and by verifying achievement of the targets set in the work plans agreed to via administrative resolution. The supporting documentation for the payments made through such transfers, as well as the targets attained, will be reviewed by the independent auditing firm hired by the program to audit the financial statements.

4. Internal control and internal auditing

Internal control is managed by the Superintendency of Internal Control under the Planning, Budget, and Management Branch, which is responsible for conducting internal audits of the SEASDH. Although its functions consist of analyzing the administrative, financial, and operational acts and events and recommending corrective actions to ensure adherence to the principles of economy, efficiency, efficacy, legality, legitimacy, morality, and publicity, in practice there is no institutionalized periodic self-evaluation conducted by the audited areas to verify and control the regularity of their activities.

5. External control and reports

The project will be audited by a firm of independent external auditors. The Audit Office of the State of Rio de Janeiro is not yet authorized as an auditor for Bank projects.

6. Financial supervision plan

Please refer to Appendix 2 to this document.

7. Execution mechanism

The execution mechanism was discussed extensively during the analysis mission and will become part of the conditions precedent to the first disbursement.

8. Other financial management agreements and requirements

Financial execution of the project will be carried out directly by SIAFEM, in accordance with the guidelines for the Bank's acceptance of the use of Country Management Systems.

Provision is being made for hiring a support agency for program execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/12

Brazil. Loan ___/OC-BR to the State of Rio de Janeiro
Social Inclusion and Opportunities Program
for Youth in Rio de Janeiro

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 State of Rio de Janeiro, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the program for social inclusion and opportunities for youth in Rio de Janeiro. Such financing will be for an amount of up to US\$60,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, 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 __ _____)

LEG/SGO/CSC/IDBDOCS: 36985203
Pipeline No. BR-L1287