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BRAZIL

MAKING MACEIÓ MORE INCLUSIVE WITH CIRCULAR ECONOMY MODELS

(BR-T1342)

DONORS MEMORANDUM

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EXECUTIVE SUMMARY
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Maceió is the capital of Alagoas State, in Brazil's Northeast region. Since the 1950s, there have been high levels of migration from the state's outlying areas to the city. These migrants settled in unstructured favelas along the Laguna de Mundaú and the coastline, where they could fish as a source of income. This new population lives mainly from harvesting shellfish and selling fish and handcrafts, and lacks access to education, basic sanitation, and quality housing.

With average monthly sales of 416 tons of shelled shellfish and 50 tons of shell-on shellfish, an estimated 360 tons of waste are generated per month and dumped into the environment without being treated, increasing pollution and blocking rainwater drainage and sanitation channels in the very neighborhoods where these fishermen live.

For **purposes** of improving the quality of life of the population engaged in the most traditional chains of the local economy (shellfish and fish), this project will boost the development of circular economy models in Maceió, under which waste is a valuable resource for the production of other resources.

The introduction of circular economy business models in these two chains will help to reduce the pressure on the ecosystem and will allow the city of Maceió to have a more resilient economy in a healthy environment. Formal job creation, a traditionally critical element for the city, will also be boosted.

As a **result**, at least 100 tons of sururú shells that at present are dumped into the lagoon will be used each month, and more than 5 tons of sururú that are currently consumed despite not meeting basic public health and hygiene standards will be purified each month. To this end, between 300 to 500 fishermen will be trained and the development of at least three new products will be supported through the circular economy concept.

The **Instituto Brasileiro de Desenvolvimento e Sustentabilidade** [Brazilian Institute of Development and Sustainability] (IABS) will be the project executing partner. Other key entities for the project's development will be Maceió City Hall, the Alagoas state government, petrochemical company Braskem, and the Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service] (SEBRAE).

The project complements the Urban Redevelopment Program of the Maceió Waterfront (BR-L1430, in preparation), which seeks to improve the urban and social conditions of the waterfront, facilitating its integration into the city. This program presents holistic actions aimed at improving sanitation, housing, mobility, and accessibility of the waterfront and thereby renovating and revitalizing the local economy. The loan provides for the development of productive infrastructure, including a purification tank, which will be used by the beneficiaries of this MIF-financed project.

The integration of IDB loan (BR-L1430, in preparation) and this MIF initiative represents a pair of interventions that greatly complement each other, since the loan proceeds will make it possible to build urban infrastructure, and the MIF is contributing to a public-private partnership for equipment receiving public investment, thus bolstering the use of this infrastructure and increasing opportunities for local development.

ANNEXES

Annex I	Results Matrix
Annex II	Summary Budget

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Proposed resolution

INFORMATION AVAILABLE IN THE TECHNICAL FILES

Annex III	Itemized Budget
Annex IV	Diagnostic Needs Assessment of the Executing Agency (DNA)
Annex V	Project Status Reports (PSRs), Fulfillment of Milestones, Fiduciary Agreements, and Institutional Integrity
Annex VI	Procurement Plan

ABBREVIATIONS

DESENVOLVE	Alagoas development agency
IABS	Instituto Brasileiro de Desenvolvimento e Sustentabilidade [Brazilian Institute of Development and Sustainability]
IICA	Inter-American Institute for Cooperation on Agriculture
MIF	Multilateral Investment Fund
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Microenterprise and Small Business Support Service]
SEBRAEtec	SEBRAE's technology and innovation services

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EXECUTIVE SUMMARY

Country and geographic location:	Maceió, Alagoas State (Brazil)		
Executing partner:	Instituto Brasileiro de Desenvolvimento e Sustentabilidade [Brazilian Institute of Development and Sustainability]		
Focus area:	Inclusive cities		
Coordination with other donors and Bank operations:	This project is designed in collaboration with HUB/CBR in the framework of project BR-L1430. Other entities taking part in the project are Maceió City Hall, the Government of Maceió State, the petrochemical company Braskem through its subsidiary in Maceió, and SEBRAE in Alagoas.		
Project beneficiaries:	<p>The direct beneficiaries of the project are 300 to 500 fishermen, in addition to 1,600 people directly engaged in fishing in the Laguna Mundaú region and Barrio Jaraguá.</p> <p>In addition, the inhabitants of Maceió will benefit indirectly through a reduction in environmental pollution, especially the residents of Mundaú and Jaraguá (approx. 3,500 families).</p>		
Financing:	Technical cooperation funding:	US\$1,200,000	31%
	Counterpart:	US\$2,733,055	69%
	Total Budget:	US\$3,933,055	100%
Execution and disbursement period:	42 months for execution and 48 for disbursement		
Special contractual clauses:	The following will be conditions precedent to the first disbursement: (i) contracting a project coordinator; (ii) disbursement plan for the first six months; (iii) project procurement plan; and (iv) creation of the project execution unit and a project steering committee.		
Environmental and social impact review:	This operation has been preevaluated and classified on 22 September 2016 in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, the proposed project is classified as a category "C" operation.		

I. PROBLEM TO BE ADDRESSED

- 1.1 Maceió is the capital of Alagoas State, in Brazil's Northeast region. It has 1 million inhabitants and concentrates 30% of the state's population. Data from Brazil's geography and statistics institute (IBGE) show that Maceió has the second highest level of social inequality in Brazil's Northeast: the GINI index in 2010 was 0.6378, slightly worse than in 1990 (0.6367).
- 1.2 The local economy is based on tourism¹ and the production of commodities such as shellfish, fish, coconut water, and sugar cane in the city's surrounding areas. Fishing is socially and economically important in Maceió, involving 6,500 fishermen across several neighborhood communities.
- 1.3 Since the 1950s, there have been high levels of migration from the state's outlying areas to the city. This new population settled in unstructured favelas along the Laguna de Mundaú and the coastline, mainly because they could use fishing as a source of income. These new dwellers live mainly from harvesting shellfish (especially sururú²) and selling fish and handcrafts, and lack access to education, basic sanitation, and quality housing.
- 1.4 The area faces challenges due to the accumulation of waste in the lagoon, a lack of economic opportunities for fishermen, and the sale of products with little value-added owing to factors including the inadequate management of existing infrastructure.
- 1.5 Shellfish production is estimated to average 416 tons of shelled shellfish and 50 tons of shell-on shellfish, generating an estimated 360 tons of waste per month. The waste (shellfish shells, fish scales, etc.) is generally dumped into the environment without being treated, increasing pollution and blocking rainwater and sanitation channels. The municipal urban cleaning company is looking to remove the tons of accumulated shells from the edges of the lagoon, but just the cost of disposing of those shells at the city's landfill sites is more than 60 reais per ton, not including removal and transport costs. In addition, the waste is not concentrated in a single area of the lagoon, therefore the **logistics of gathering such waste make the removal of all of it unfeasible.**
- 1.6 There are multiple potential ways to use this waste in the production of fertilizers and animal feed, and Maceió City Hall is using some of the crushed sururú shells as fertilizer for urban gardens. However, other alternatives for this sururú and fish waste are currently unviable as it is **mixed with other household and commercial waste** (plastic, glass, leftover food) **and has high collection, transport, and separation costs.**
- 1.7 In addition to waste accumulation, there is a **lack of alternate income opportunities for the fishermen**, which directly impacts the quality of life of the region's inhabitants, especially the poorest of them, who are left stuck in a **vicious cycle of environmental degradation, pollution of the lagoon and sea, and,**

¹ The main economic sector is the services sector, which in 2012 accounted for 70% of GDP in Maceió, especially tourism-related activities – (Economic Outlook for Alagoas, *Department of Planning and Economic Development*).

² Sururú is a bivalve mollusk that is typical in Alagoas, part of the traditional state cuisine. Its main habitat is the bottom of the Mundaú lagoon in Maceió due to its richness in organic matter.

lastly, lower productivity and quality of the products of its economic activity, shellfish and fish.

- 1.8 Shellfish filter pollution from the environment. These polluted shellfish are sold in local markets, **either informally or without a permit** from public authorities, or to intermediary traders, at a low price. These traders then package the shellfish and fish in a haphazard manner and sell them in areas frequented by tourists.
- 1.9 To increase the business opportunities and improve income generation for the poorest individuals, over recent years, the municipal and state governments have invested in productive infrastructure and in improving the city's public markets. Unfortunately, beneficiaries have not taken full advantage of much of this infrastructure due to a **lack of information, management capacity, and resources to finance investment in clean, licensed handling**. In this regard, the fishermen settle for low quality production and ever lower sales revenues. Lastly, these productive structures end up closing or are unsustainable in the long term.

II. INNOVATION PROPOSAL

A. Project description

- 2.1 The **project objective** is to improve the quality of life of the population engaged in the most traditional chains of the local economy (shellfish and fish) through the promotion of circular economy models in Maceió.
- 2.2 The global economy is dominated by linear economy models, where natural resources are extracted to manufacture products, which are used and then discarded. In a circular economy, goods are used at their greatest level of quality for the longest time possible, and at the end of the product life, waste and byproducts reenter the production cycle as raw materials. Therefore, there is no waste, but a valuable resource for producing other goods.
- 2.3 The linear economic model leads to chronic growth in waste levels and makes economic development contingent upon obtaining virgin raw materials. However, this is not sustainable in a world of finite resources, especially with a growing population with increasing purchasing power. That is precisely the innovation of this project: to contribute to the transformation of a traditional economy based on linear chains into a modern economy based on circular value chains where waste is a raw material for another chain.
- 2.4 Circular economy models make it possible for the private sector to reduce its vulnerability to changes in the prices of raw materials, generate savings, reach new markets, and improve its relationship with its clients. It offers cities a framework for the creation of resilient economies in healthy environments.
- 2.5 To increase their income and improve the environment where the fishermen and sururú producers live and work, the project will focus on two different yet complementary lines of action:
 - a. Supporting the development of new products (detailed below) using what is now the waste from local shellfish and fish production, contributing to the improvement of the environment and urban cleanliness;

- b. Improving the quality and production process of sururú and fish so as to increase the quality, sales prices, and sales channels of these products through actions on matters including health, regulations, environmental permitting, and the management of social businesses.
- 2.6 The introduction of circular economy business models in these two chains will help to reduce pressure on the ecosystem and allow the city of Maceió to have a resilient economy in a healthy environment. It will also boost the generation of formal employment, a traditionally critical element in the city.
- 2.7 Possible uses for waste from these two chains include the production of inputs for animal and human food, construction materials, and compounds for the treatment of waste generated by cassava production, which once treated, can potentially be used for bioethanol, biogas, and fertilizers.
- 2.8 **Innovation.** The project is highly innovative as it includes:
 - a. A waste management solution for traditional chains through a circular economy model that enables the creation of innovative uses with market potential and improved income for the first link in the chain;
 - b. The enhancement of the quality of fish and shellfish that do not go through a cleaning and purification process;
 - c. The generation of public goods management models that make it possible to address the challenge of managing productive infrastructure developed by the public and private sectors that are generally donated to groups of producers who face serious challenges in managing them.
- 2.9 **Component I: Bases for developing the circular economy (MIF: US\$170,000; Counterpart: US\$95,000).** The objective is to further the analysis of shellfish and fish chains, the current use of their waste, and to raise awareness regarding the potential to develop the circular economy in Maceió through studies, technical missions, and seminars disseminating the concept. A model sururú growing project will also be financed to generate an alternative, sustainable, and controlled means of harvesting the shellfish. Considering the variations in product demand and the infrastructure needs that could result from the introduction of circular models, the project will work together with producers and the local public sector on the environmental sustainability and regulations for sururú production at Laguna de Mundaú and artisanal fisheries in the coastal area of Jaraguá.
- 2.10 **Component II: Development of products and construction of business models (MIF: US\$235,375; Counterpart: US\$387,000).** The objective of this component is to provide incentives to develop new products for the circular economy and to improve the quality of original products to increase their value-added. Incentives will be created for the development of new products such as clean, cut fish, frozen sururú, and fish burgers. These traditional products have simple production processes and are adaptable to productive capacities of local beneficiaries. In the new circular economy chain, support will be provided for linking companies to academic innovation so that waste from one chain can be an input for another, resulting in a local system based on closed circuits. The project will also promote ecodesign, waste minimization, cleaner production, and reverse logistics where applicable.

2.11 **Component III: Implementation and incubation of social enterprises and businesses within the circular economy (MIF: US\$390,000; Counterpart: US\$1,877,200).** This component focuses on providing technical and financial support to local businessmen and fishermen to develop new products, both traditional and those based on the circular economy models. The proceeds of the IDB loan to the municipality of Maceió will be used to build a sururú purification tank³ that will improve the quality of the shellfish and concentrate all the waste in one place, facilitating the initial crushing and subsequent collection to serve as an input for the next link on the production chain. This infrastructure will be managed by the fisheries association or cooperative and will be close to the edge of the lagoon so as to directly receive the fishing boats after they harvest the shellfish. The land for building the purification tank will be selected to be close to the producers without harming the environment; there are preselected locations in the loan intervention area or on local land owned by Braskem, which supports this project.⁴ Training activities are planned for the fishermen to enhance their productive practices and to ensure better use of the product. This component also includes actions to boost new ventures within circular economy structures, as well as the development of social business models that can manage the purification tank. Lastly, with the support of SEBRAE (through the SEBRAEtec program),⁵ technical assistance will be provided to new ventures and together with the state development agency (Desenvolve) efforts will be undertaken to finance the scalability of the technology and business models, so as to catalyze investment in those innovative businesses.

2.12 **Component IV: Positioning and strengthening of the circular economy market (MIF: US\$129,000; Counterpart: US\$109,000).** This component will contribute to the promotion and sale of the products developed, a collective visual identity for products of the circular economy, and a marketing strategy.

B. Project outcomes, impact, monitoring, and evaluation

2.13 The project will contribute to improving the quality of life of Maceió inhabitants, especially the fishermen of Laguna de Mundaú and Jaraguá, through the generation of new business opportunities and the reduction of environmental pollution. Each month, at least 100 tons of sururú shells that at present are dumped in the lagoon will be used, and more than 5 tons of sururú that at present are eaten without meeting basic public health and hygiene standards will be purified. To do so, between 300 to 500 fishermen will be trained, and the development of at least three new products will be supported through the circular economy concept.

2.14 The IABS and Maceió City Hall will be responsible for gathering data on beneficiaries, disaggregated by gender, and on the production and sale of the products. A local technical team will be contracted to monitor project impact and achievements, taking into consideration that all the information should be reported

³ A purification tank is productive infrastructure that cleans the shellfish in a tank of clean water for a certain number of hours/days.

⁴ See further details on the role of the company as a project partner at 5.7.

⁵ SEBRAE's national technical assistance program where 50% of expenses are covered by SEBRAE and the other resources are contributed by business owners.

in the semiannual and final project status report. At the midway point of project execution, an independent midterm evaluation will be contracted to help correct the courses and adjust activities. There will be no independent final evaluation; however, the results will be systematized by the project technical team and disseminated through the technical publications and seminars included in the itemized budget.

III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS

A. Alignment with the IDB Group

- 3.1 This proposal is aligned with the Country Strategy with Brazil (2016-2018)⁶ as it contributes to two of the three major development challenges identified: (i) increase productivity and competitiveness, and (ii) reduce inequity. The project will also directly contribute directly to the crosscutting theme of climate change. It is also aligned with one of the three implementation approaches: sustainable economic development of metropolitan areas.
- 3.2 The project is also aligned with the Urban Redevelopment Program of the Maceió Waterfront (BR-L1430) which seeks to improve the urban and social conditions of the waterfront area, facilitating its integration into the city. This program presents integrated socioenvironmental actions aimed at improving sanitation, housing, mobility, and accessibility of the waterfront to renovate and revitalize the local economy. The loan provides for the development of productive infrastructure, including a purification tank, which will be used by the fishermen's association/cooperative.
- 3.3 The integration of this IDB loan and this MIF initiative are two interventions that greatly complement each other, since the loan proceeds will make it possible to build urban infrastructure, and the MIF is working to establish a public-private partnership for equipment receiving public investment, bolstering the use of this infrastructure and increasing opportunities for local development. In this regard, the MIF assumes a role of creating and implementing a strategy to make the territorial development arrangement viable, working on the governance and training of the private sector to use the constructed spaces.

B. Scalability

- 3.4 The following scaling options can be highlighted for this project:
 - a. The public infrastructure management model could be scaled up by the state government and other lenders, especially the Brazilian Economic and Social Development Bank (BNDES), which has had difficulty identifying solutions for small productive infrastructure;
 - b. The circular economy model could be expanded to other traditional sectors with financing from Desenvolve.
- 3.5 To that end, as part of the project, three interagency seminars will be held to expand project actions and to ensure its sustainability upon completion. Additionally, a final event will be held and materials will be prepared to disseminate

⁶ Document CII/GN-317 or GN-2850 of 3 March 2016.

the circular economy concept and the project's achievements. The preexisting dialogue channels from other MIF projects will be used to disseminate the infrastructure management model among public and private actors that often finance such actions.

C. Project and institutional risks

- 3.6 The risks identified are: (i) the need to establish close collaborative relationships between entrepreneurs and organizations with which such enterprises do not generally work (universities, research centers, etc.); (ii) the lack of access to credit for companies, which is needed to introduce innovations and for technological development; and (iii) the need to improve issues related to health, regulations, and management.
- 3.7 Specific measures have been established to mitigate these risks: (i) flexible execution instruments, such as the call for innovative project financing, which makes it possible to execute actions designed directly by the actors and that, in addition to being instruments that require alliance building, are tailored to actor capacities; (ii) the project will work with Desenvolve from the design stage onwards to ensure the appropriate financing instruments are available; (iii) the close collaboration with government agencies, which have expressed their commitment to the project and to supporting the beneficiaries in improving their productive processes and meeting environmental management and health requirements.

IV. INSTRUMENT AND BUDGET PROPOSAL

- 4.1 The project has a total cost of US\$3,933,055. The MIF will contribute US\$1,200,000 (31%) of that amount as nonreimbursable technical-cooperation funding, and the counterpart will contribute US\$2,733,055 (69%).

	MIF	Counterpart	Total
Component 1: Bases for developing the circular economy.	170,000	95,000	265,000
Component 2: Development of products and construction of business models	235,375	387,000	622,375
Component 3: Implementation and incubation of social enterprises and businesses within the circular economy	390,000	1,877,200	2,267,200
Component 4: Positioning and strengthening of the circular economy model	129,000	109,000	238,000
Scaling strategy activities	80,325	118,675	199,000
Project management	140,300	146,180	286,480
Ex post reviews	15,000		
Monitoring and evaluation	10,000		
Contingencies	30,000		
Total	1,200,000	2,733,055	3,933,055
% of financing	31%	69%	

V. EXECUTING AGENCY AND IMPLEMENTATION STRUCTURE

A. Executing agency description

- 5.1 The IABS will be the project executing agency and will sign the agreement with the Bank. The IABS is a nongovernmental organization that has extensive experience in productive inclusion and in aquaculture, fishing, and environmental projects. Its objective is to contribute to social wellbeing, sustainable development, and reducing inequalities based on socioenvironmental quality and integrity, institutional strengthening and development, protection of cultural and natural heritage, the improvement of quality of life, and guaranteeing access to such benefits for present and future generations.
- 5.2 The IABS is an executing agency for several national and international bodies such as Spanish Agency for International Development Cooperation (AECID), the Inter-American Institute for Cooperation on Agriculture (IICA), the Universidad Politécnica de Madrid (UPM), federal and state government agencies (including the Ministry of the Environment and Government of Alagoas), and the office of the public prosecutor of Minas Gerais in relation to environmental compensation matters. With extensive experience in the region and involvement with these different national and international actors, the IABS is performing the necessary institutional coordination to create a proposed integrated project management model, including new possibilities for technical and financial contributions.
- 5.3 The IABS was also the executing agency of a sustainable tourism project with the MIF, which was executed between 2012 and 2016, with achievements including destination planning, supply rating, development and improvement of products related to the local culture and scenery, and the positioning of the destination in the regional and national markets.
- 5.4 Other key partners in the project's development will be Maceió City Hall and the Alagoas state government as providers of funding and technical support. The municipality will participate in building the purification tank (using an IDB loan) and will invest its own funds in renovating all the fishing infrastructure in the Jaraguá region. The Alagoas state government is involved through the Department of Social Development and Assistance. This Department is responsible for recording and monitoring the beneficiaries of social programs and has the priority of enhancing the productive inclusion of this population, participating in the project by providing technical assistance and helping to mobilize and raise awareness among the project's target public.
- 5.5 Desenvolve, a financial institution supervised and regulated by Brazil's Central Bank, is interested in the project and its progress, and may help provide access to financing for the supported circular business models.
- 5.6 SEBRAE will also be responsible for providing technical assistance to the business owners interested in investing in the new circular economy model. The SEBRAEtec program will provide financing for up to 50% of the technical assistance with personalized consulting services and will also offer business owners regular business and financial management programs.
- 5.7 Lastly, the petrochemical company Braskem, through its subsidiary in Maceió, will support the project by donating materials to construct the sururú growing pilot

project (floating plastic tubes and resins) and also support the construction of model spaces to disseminate the concept of using ecologically efficient, recyclable resources, such as the school kindergarten and the basic health unit in the municipality. It could also take part in the donation of land for construction of the purification tank.

B. Structure and Implementation Mechanism

- 5.8 The IABS will establish a project execution unit and the necessary structure to execute the project activities and effectively and efficiently manage the project resources. The IABS will also be responsible for delivering project status reports (PSRs). The requirements for project status reports can be found in Annex V of the technical files for this operation.
- 5.9 The IABS has a permanent multidisciplinary technical team made up of professionals⁷ with extensive experience in managing and executing actions similar to those proposed in this project. The IABS has undertaken several local sustainable development projects, with financing from national and international bodies, such as the Brazilian Ministry of Tourism, the Agência Brasileira de Cooperação [Brazilian Cooperation Agency] (ABC), the Inter-American Institute for Cooperation on Agriculture (IICA), the Japan International Cooperation Agency (JICA), and the Spanish Agency for International Development Cooperation (AECID).
- 5.10 The **Project Execution Unit (PEU)** will be located in the IABS office in the city of Maceió, Alagoas, under the leadership of the IABS Director. At the start of the project, the PEU will establish a Program Steering Committee (PSC) made up of members of the institutions taking part in the project. The PSC will have the objective of continually monitoring and assessing the project. The PEU will operate in line with the annual work plan (AWP) on the technical coordination and comprehensive execution of the project and the channeling of the no objection requests for the contracting of services and procurement of goods and services included in the project.

VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 6.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will agree to the standard MIF arrangements concerning results-based disbursements, the Bank's procurement policies,⁸ and financial management,⁹ as specified in Annexes V and VI.

⁷ In the areas of: (i) environment and protected areas; (ii) rural development and social technologies; (iii) sustainable tourism; (iv) aquaculture and sustainable fishing; (v) social dialogues and conflict management; and (vi) inclusive energy.

⁸ Link to [Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank](#).

⁹ Link to [Operational Guidelines for Financial Management](#).