PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

DESENVOLVE SP PROGRAM
SUSTAINABLE INFRASTRUCTURE

(BR-L1582)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Rafael Lima (IFD/CMF), Project Team Leader; Diego Arcia (CSD/HUD), Carlos Echevarría (INE/ENE), and Ana Beatriz De Castro (INE/TSP), Alternate Project Team Leaders; Daniel Fonseca, Eduardo Sierra, Karina Azar, Isabelle Braly-Cartillier, Javier Gavilánez, Giovanni Frisari, Adrián Ortega, Carlos Salgado, Daniel Ricas, Claudia Márquez, Ana Lozano, and Eillim Flores (IFD/CMF); Dalve Álves (CSD/HUD); Bárbara Brakarz (CSD/CCS); Vanderleía Radaelli, and Michael Hennessey (IFD/CTI); Reinaldo Fioravanti (INE/TSP); Cristina Celeste, and Guillermo Eschoyez (LEG/SGO); Daniel Da Silva (SPD/SDV); Judith Morrison (SCL/GDI); Karina Díaz Briones and Miguel Baruzze (VPC/FMP); Leonardo Da Rosa Fernándes (CSC/CBR); Daniel Torres (INE/TSP); Ute Reisinger and Serge-Henri Troch (VPS/ESG); and Carolina Avello (Consultant).

CONTENTS

APPENDICES

Annexes	
Annex I	Summary Development Effectiveness Matrix
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

Required links	
1	Monitoring and evaluation plan
2	Environmental and Social Review Summary

Optional links	
1	Project economic analysis
2	Program Operating Regulations
3	Sector diagnostic assessment
4	Sustainability of the public policies of the state of São Paulo and the role of Desenvolve SP
5	Studies for the strategic selection of municípios
6	Demand for financing and maximum amounts
7	Strategic planning for Desenvolve SP 2022-2026
8	Environmental safeguards for micro and small enterprises
9	Environmental and Social Evaluation Filter

ABBREVIATIONS

BCB	Banco Central do Brasil [Central Bank of Brazil]
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [Economic and Social Development Bank]
DSP	Desenvolve São Paulo [State of São Paulo Development Agency]
ESMS	Environmental and social management system
GDP	Gross domestic product
GHG	Greenhouse gas
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMA	International Capital Market Association
IPRS	Índice Paulista de Responsabilidad Social [São Paulo State Social Responsibility Index]
MEP	Monitoring and evaluation plan
MSME	Micro, small, and medium-sized enterprise
NDB	New Development Bank
NDC	Nationally Determined Contribution
SDG	Sustainable Development Goal
SEADE	Fundação Sistema Estadual de Análise de Dados [State Data Analysis System Foundation]
SEBRAE	Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Micro and Small Enterprise Support Service]

PROJECT SUMMARY

BRAZIL

DESENVOLVE SP PROGRAM

SUSTAINABLE INFRASTRUCTURE

(BR-L1582)

<table>
<tr><th colspan="6">Financial terms and conditions</th></tr>
<tr><th colspan="3">Borrower and executing agency:</th><th colspan="3">Flexible Financing Facility[a]</th></tr>
<tr><td colspan="3">Desenvolve SP [State of São Paulo Development Agency]</td><td colspan="2">Amortization period:</td><td>25 years</td></tr>
<tr><td colspan="3">Guarantor:</td><td colspan="2">Disbursement period:</td><td>4 years</td></tr>
<tr><td colspan="3">Federative Republic of Brazil</td><td colspan="2">Grace period:</td><td>5.5 years[b]</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td colspan="2">Interest rate:</td><td>SOFR-based</td></tr>
<tr><td>IDB (Ordinary Capital):</td><td>110,000,000</td><td>55</td><td colspan="2">Credit fee:</td><td>[c]</td></tr>
<tr><td rowspan="2">Parallel financing:[d]</td><td rowspan="2">90,000,000</td><td rowspan="2">45</td><td colspan="2">Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td colspan="2">Weighted average life:</td><td>15.25 years</td></tr>
<tr><td>Total:</td><td>200,000,000</td><td>100</td><td colspan="2">Currency of approval:</td><td>U.S. dollar</td></tr>
</table>

Project at a glance
Project objectives/description: The program's general development objective is to promote the sustainability of the State of São Paulo. The specific development objective is to provide medium- and long-term financing to support the development of sustainable infrastructure and investments by municípios and micro, small, and medium-sized enterprises (MSMEs) in the state.
Special contractual condition precedent to the first disbursement of the financing: The borrower will submit evidence that the program Operating Regulations have been approved and have taken effect in terms agreed upon in advance with the Bank (paragraph 3.7). See Annex B of required link 2 for the special socioenvironmental conditions.
Exceptions to Bank policies: The Board of Executive Directors is asked to approve a partial waiver of the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) so that the borrower's financial operations are guaranteed solely by the Federative Republic of Brazil, waiving the need for the State of São Paulo to guarantee the borrower's performance obligations and the local counterpart (paragraph 3.8).

Strategic alignment			
Challenges:[e]	SI ☒	PI ☒	EI ☐
Crosscutting themes:[f]	GE ☒ and DI ☒	CC ☒ and ES ☐	IC ☐

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

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

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

[d] The New Development Bank (NDB) will contribute up to the equivalent of US$90 million in parallel financing for the program. The NDB's policies and procedures will be used in managing those funds.

[e] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[f] GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Socioenvironmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Macroeconomic context.** The Brazilian government responded to the economic crisis caused by COVID-19 by supporting the incomes of households, businesses, and subnational governments with a package worth about 8.5% of GDP.[1] Coupled with the drop in economic activity, this had a strong impact on public finances, resulting in a primary fiscal deficit of 9.49% of GDP and a gross public debt of 89.3% of GDP in 2020.[2] In 2021 and 2022, the combination of stronger growth and higher inflation led to a fiscal improvement, with an increase in tax revenues and a decline in debt. For 2023, the budget act anticipates a fiscal of 0.6% of GDP in a context of lower growth (0.50% of GDP).[3] Moreover, the budget plans for the lowest public investment in history. To spur a larger and better recovery in the medium and long terms, the Brazilian government needs to ready the economy for the transition to a post-COVID-19 world, which will require a greater focus on increasing sustainable investments aligned with the Sustainable Development Goals (SDGs)[4] and with Brazil's international commitments to sustainability under the Paris Agreement.[5]

1.2 **The recovery from the COVID-19 pandemic needs to be sustainable**. The State of São Paulo is marked by a rapid process of industrialization and urbanization with impacts on the environment, an increase in pollution, and the growth of housing on the outskirts of cities with less access to basic services and infrastructure. The state needs to migrate toward a more sustainable economic model. Brazil's post-COVID-19 economic plan[6] presents an opportunity for implementing medium- and long-term solutions that can support a sustainable recovery, considering two main challenges: (i) climate change mitigation;[7] and (ii) inclusion of the most vulnerable or excluded groups.[8] Considering the importance of these fronts for sustainable development and the recent fiscal constraints faced by the federal and state governments limiting their investment capacity, facilitating resources for the municipalities and the private sector is one alternative for moving ahead with this agenda in the country.[9]

---

1 Ministry of Economy, 2021. Análise do Impacto Fiscal das Medidas de Enfrentamento à COVID-19.

2 Ministry of Economy, 2021. Uma breve reflexão sobre o desempenho econômico brasileiro diante da crise da Covid-19.

3 Central Bank of Brazil, 2022. Boletim Focus – Relatório de Mercado.

4 Government of Brazil, 2021. Indicadores Brasileiros para os Objetivos de Desenvolvimento Sustentável.

5 Ministry of Foreign Relations, 2020. Brazil submits its Nationally Determined Contribution under the Paris Agreement.

6 Government of Brazil, 2020. Estratégia Federal de Desenvolvimento 2020-2031.

7 In line with SDGs 7, 11, and 13.

8 Consistent with SDG 8.

9 In 2020, minimum federal spending was similar to the values observed between 2003 and 2004, while spending on investments by the subnational governments (including municípios) surged. This can be explained by the need for larger investments at the outset of the pandemic, when the federal government provided more financing. Providing continuity for the availability of financing for municípios could be a key in speeding up public investment in sustainable infrastructure in the context of the economic recovery, complementing private investment. FGV-IBRE, 2021. Observatório de Política Fiscal – Investimentos Públicos: 1947-2020.

1.3 **Climate change**. Emissions reduction and adaptation to climate change are keys for sustainable development in Brazil, considering the country's vulnerability to phenomena such as prolonged droughts and flooding.[10] The country has undertaken to reduce its carbon emissions by 37% by 2025 and by 43% by 2030, compared to the 2005 baseline, and maintains adaptation to climate change among its social priorities.[11] The State of São Paulo has issued its own climate change action plan (Net Zero 2050)[12] and State Decree 65,881, with which it has joined the United Nations Race to Zero and Resilience and undertaken to design and implement policies and investments to achieve carbon neutrality by 2050. A study on green credit policies in China points to a significantly positive impact on efficient energy use.[13] To make headway with the climate change mitigation agenda, both the private and public sectors need to invest in energy efficiency and in the generation of renewable energy.

(i) **Energy efficiency**. In the private sphere, given their relative importance in electricity consumption, the commercial and industrial sectors of the State of São Paulo present large opportunities to promote electric energy savings and efficient use (optional link 3). Commercial and industrial companies are heavy consumers of power and therefore need to use energy efficiently by incorporating available technological improvements, equipment, processes, and energy management systems. One of the main barriers to implementing energy efficiency projects is limited access to commercial financing, particularly because projects of this kind generally require large initial investments. In the public sphere in Brazil, the energy bill is the second-largest expenditure by municípios, after wages. Municipal electricity consumption includes public lighting and energy used in municipal buildings, and other consumption associated with basic services. There is a great deal of room for improvement in energy efficiency in the sector.

(ii) **Distributed generation of renewable energy.** The legislation[14] and regulations currently in effect in Brazil permit users (including public institutions) to install small-scale distributed generation (mainly solar energy), which helps, on the one hand, to reduce electricity consumption and, on the other, to increase renewable generation and reduce greenhouse gas (GHG) emissions. The State of São Paulo presents favorable features for distributed generation of solar energy on account of its climate and the nature of the electric infrastructure already installed. Tapping this potential can lead to significant savings of public resources and reduce GHG emissions. A recent study shows that installation of photovoltaic systems on public land and buildings would lead to savings in electricity billing of between R$2.4 billion

---

[10] In addition, Brazil was ranked among the 30 most vulnerable countries out of a total of 180, based on data from 2019 in the Global Climate Risk Index 2021. Climate Change Knowledge Portal-World Bank.

[11] Brazil's First NDC-Updated Submission.

[12] Sao Paulo State Climate Action Plan. Guidelines and Strategic Actions PAC NET ZERO 2050.

[13] Ma, X. et al. (2021). "The Impact of Green Credit Policy on Energy Efficient Utilization in China."

[14] Bill 5829/2019 was passed into law in January 2022, establishing the legal framework for distributed micro- and mini-generation (distributed generation) in Brazil and confers greater legal stability and predictability for future development of the sector.

and $3 billion over the period under analysis.[15] Opportunities also exist for private sector benefits, through the installation of affordable solar panels for companies and households which reduce spending on energy while contributing to a reduction in emissions.

(iii) **Vehicle fleet and nonmotorized transport**. The State of São Paulo has the largest fleet of motor vehicles on the road in Brazil according to the most recent report by the Brazilian Institute of Geography and Statistics (IBGE). The average age of vehicles is 10 years and the older the vehicle the higher the emissions. On the state level, the National Urban Mobility Policy[16] promotes a more integrated view of public transportation systems and modes and nonmotorized transport. However, just 17% of the 111 municípios in the state have mobility plans.[17] Given this challenge, electric vehicles and nonmotorized transport are particularly relevant in a context where vehicle emissions are one of the main causes of air pollution. An automobile propelled by ethanol in Brazil emits almost four times the amount of CO_2 than a comparable electric vehicle.[18] The Brazilian market for electric vehicles has great potential. In 2019, registration of new electric passenger and light commercial vehicles was three times higher than in 2018. Streets with bicycle lanes need to be better integrated into public intermodal urban transport and dormitory suburbs to represent a real, efficient, safe, and sustainable alternative.

1.4 **Social inclusion.** Sustainable development also requires a more inclusive society to assist more vulnerable or underserved groups. Social exclusion is costly both for individuals and for countries. Excluded individuals have lower levels of education and face larger losses of income. On the aggregate level, the inequality suffered by some groups translates into the loss of wealth for countries.[19] During 2018, Brazil was the Latin American country with the highest inequality in income distribution, as measured by the Gini coefficient.[20] The State of São Paulo also shows signs of inequality, as measured by the São Paulo State Social Responsibility Index (IPRS) that summarizes three measurements of human development: wealth, longevity, and education. According to the 2018 IPRS, 61 of the state's 645 municípios are considered vulnerable in the three measurements, with low levels of wealth, longevity and education. Apart from promoting a reduction in inequality and poverty, social inclusion enables excluded groups to confront economic disruption through an improvement in productivity and efficiency. The most vulnerable groups include: (i) people with difficulties in accessing public services because they do not live near paved roads; and (ii) small businesses such as MSMEs, which have difficult access to financing, particularly those in

---

15 IDB (2020). "Apoio ao Governo do Estado de São Paulo no Desenvolvimento de Conhecimento, informações e Ferramentas para Disseminar o Uso de Sistemas de Energia Solar Fotovoltaica em Edifícios Públicos no Estado."

16 Federal Law 12,587 of 3 January 2012, as amended by Law 14,000 of 2020.

17 Department of Mobility Projects and Urban Services of the National Department of Mobility and Regional and Urban Development.

18 Costa et al. (2020). Diffusion of electric vehicles in Brazil from the stakeholders' perspective.

19 Some of the losses stemming from unequal opportunities in Latin America include poverty levels 2.5 times higher for Afro-descendants compared to other communities while, worldwide, gender inequality is estimated to cause losses of US$160.2 billion. World Bank (2021).

20 Data available in Statista.

municípios with lower human development and those led by women and Afro-descendants.

(i) **Inclusive urban infrastructure.** According to the Global Competitiveness Ranking 2019, Brazil ranks 69th out of 141 countries in the indicator for road connectivity and 116th in the indicator for road infrastructure quality. Despite this, public and private investments in highways have fallen in recent years, from an average of 0.37% of GDP in the period 2012-2016 to 0.24% in 2017-2021.[21] Furthermore, nationwide, close to 67% of paved roads are in suboptimal condition.[22] Municipally, smaller municípios have worse results in terms of housing location.[23] Limited urban infrastructure stands in the way of access to basic services such as schools, first aid, water, local markets, and economic opportunities.[24] In addition, low-income groups tend to live on the outskirts of cities, which makes mobility alternatives and access to opportunities difficult.[25] To move toward sustainable development, it is essential to favor investments in urban infrastructure that include people living farther away from public streets and rural roads. Although the state road system is such that close to 90% of the population lives no more than 5 km away from a paved road, 91.4% of municipal roads in the state are unpaved (State of São Paulo Roads Department). This points to a problem of integration between the main cities and other towns as well as a limitation on access by the public to essential social services. Long-term financing could help to improve the municipal road system in the state.

(ii) **Gaps in financing for MSMEs.** The main challenges for MSMEs are linked to the lack of medium- and long-term financing and greater vulnerability to economic shocks. For Brazil, a MSME financing gap of about US$626 billion was estimated for 2017, equivalent to 35% of GDP.[26]

a. **MSMEs in vulnerable locations.** The State of São Paulo has the country's largest population (21.9% of the total) and an urbanization rate of 96.6%.[27] The population is expected to grow significantly, and by 2050 there are expected to be an additional 3 million people demanding education, health care, housing, and infrastructure services, and jobs. This estimated growth points to socioterritorial inequalities in the state. Positive growth is estimated for regions and municípios that are more vulnerable and less resilient, such as Vale do Ribeira, the coastal strip, and satellite cities surrounding the main cities. This situation means that investments should be

---

[21] Confederação Nacional da Indústria (2021). Investimentos públicos e as rodovias federais no Brasil.

[22] Confederação Nacional do Transporte (2021). Pesquisa CNT Rodovias.

[23] IBGE, 2010. Características Urbanísticas do Entorno dos Domicílios.

[24] International Labour Organization, 2007. Rural Road Maintenance.

[25] IDB (2021c). El rol del transporte activo en la mejora de la movilidad de las personas de bajos ingresos en América Latina y el Caribe.

[26] International Finance Corporation. MSME Finance Gap.

[27] Calculations based on IBGE data published in the following article and data from the Fundação Sistema Estadual de Análise de Dados [State Data Analysis System Foundation] (SEADE).

directed to addressing the socioenvironmental challenges that lead to structural inequalities. Furthermore, as was apparent in the early stages of the pandemic, people with lower incomes and less education were more likely to lose their jobs.[28] Levels of wealth, schooling, and longevity in the State of São Paulo are measured by the IPRS, which makes it possible to identify the most vulnerable areas. The impacts of the crisis and the preexisting inequalities between regions and municípios require targeted longer-term actions to provide support, particularly for the population in the most vulnerable areas.

b. **Gender gap.** The gender gap in access to financing indicates that the 18% of MSMEs headed by women already faced financial constraints[29] prior to the COVID-19 crisis. Figures from Enterprise Surveys on MSMEs headed by women indicate that 19.4% had a female general manager. Just 2.5% of women applied for business loans in 2017 compared to 4.6% of men.[30] Data disaggregated by gender are scarce, and when controlled for the sex of the owner, the scant information available for Brazil[31] indicates that more women than men work in commerce and services and in microenterprises, which are segments with greater difficulty in accessing credit and more vulnerable to demand shocks. In a study of seven women entrepreneurs in São Paulo and Rio de Janeiro, Smith-Hunter and Leone (2010)[32] identified that 100% have their own savings as a primary source of funds and, as secondary sources, 14% indicated resources from their partners, and 28% indicated friends and family. In a study of the profile of women entrepreneurs from the states of São Paulo, Santa Catarina, and Paraná, Silvia Carreira et al. (2015)[33] found evidence that women entrepreneurs are more cautious and, therefore, take longer to make progress in their efforts. Nonetheless, their mapping also indicated that women entrepreneurs seek to act with security and report a greater propensity to take risks at the start of their business. Subsequently, they seek to make investment decisions only when they already have the resources to make the investments in hand. Moreover, a survey on financing for microenterprises in Brazil[34] found that women generally obtained loans of less than R$30,000, while men obtained loans for larger amounts. Information from the Micro and Small Enterprise Support Service (SEBRAE) based on data from the IBGE indicates that the State of São Paulo has the

[28] IMF (2021). The Short-Term Impact of COVID-19 on Labor Markets, Poverty and Inequality in Brazil.

[29] World Bank, 2017. MSME finance gap.

[30] World Bank, 2017. Global Findex.

[31] Pesquisa Nacional por Amostras de Domicílio Contínua, IBGE, 2019.

[32] Smith-Hunter, A.E. and J. Leone. 200. Afro-Brazilian women entrepreneurs: Characteristics, critical issues and current comments. Research in Business and Economics Journal.

[33] Silva Carreira, S., A. Bencciveni Franzoni, A.J. Folle Esper, D. Chagas Pacheco, F. Bohm Gramkow and M.F. Carreira. 2015. Empreendedorismo Feminino: um Estudo Fenomenológico. NAVUS - Revista de Gestão e Tecnologia, 5 (2): 6-13.

[34] SEBRAE (2019).

highest concentration of enterprises run by women (20.9%)[35] and 45% of them are heads of household.[36] In addition, between 2000 and 2010, the number of women entrepreneurs grew by 44%.[37] The results of the National Sample Survey of Households affected by COVID-19 indicate that in the state, the pandemic had a larger impact on women's businesses than on men's, which points to the importance of focusing more efforts on support for women's businesses.

c. **Diversity context.** IBGE data indicate that 38% of the state population is either brown (29.95%), black (7.02%), yellow (1.22%), or indigenous (0.23%). For the Afro-descendant population, there is no information broken down by color or race on the owners of businesses. However, the scant information available shows that there was a gap in serving the demand for financing of microentrepreneurs self-declared to be Afro-descendant (brown and black) even prior to the pandemic. An IDB report[38] found that in two Brazilian cities, the percentage of microentrepreneurs whose demand was unmet was 44.6% among self-declared Afro-descendants. As for the response to COVID-19, a 2020 national survey by SEBRAE indicated that Afro-descendent businesses are experiencing greater difficulty than self-declared white-run businesses in recovering sales. According to the survey, 70% of Afro-descendent entrepreneurs said they were affected by the pandemic, while the rate for whites was 60%. As for access to credit, the gap between Afro-descendants and whites widened. Monitoring by SEBRAE shows that Afro-descendent female entrepreneurs were hit hardest by the commercial constraints caused by pandemic and suffered the highest rejection rate when applying for credit (58% of rejections).

1.5 **The role of municipal management in sustainable development and the main challenges.** Considering the economic importance of urban areas and the concentration of the population in them, cities are strategic[39] for a sustainable recovery. In Brazil 90% of GDP is generated in the cities, which house 87% of the population.[40] To make Brazilian cities inclusive, helping to mitigate the effects of climate change in line with SDG 11 of the UN's 2030 Agenda, management and development of the urban environment are crucial. History has shown that municipal governments in Brazil play a key role in promoting investments in cities.[41] Although the ratio of public investments to GDP by municipal governments increased in 2020, it has fallen in recent years. In the period 2016-2020, average annual municipal investments were 0.56% of GDP, while the average for the period

[35] Perfil mulheres empreendedoras, 2013.

[36] Pesquisa Nacional por Amostra de Domicílios. Síntese de Indicadores. 2015.

[37] Idem.

[38] IDB, 2013. "Acesso ao crédito produtivo pelos microempreendedores afrodescendentes."

[39] Coalition for Urban Transformation, 2021. Seizing the Urban Opportunity.

[40] UN Department of Economic and Social Affairs, 2018.

[41] Afonso and Junqueira, 2009. Investimento público no Brasil é mais Municipal que Federal.

2011-2015 was 0.76%.[42] Therefore it is necessary to continue supporting municipal governments with financing as the channels for coordination between governments, civil society, and the private sector, to spur the development of infrastructure and sustainable investment.

1.6 **The role of the private sector in sustainable development and the main challenges.** Private sector participation in sustainable development in Brazil has grown more important in recent years. MSMEs are increasingly seen as strategic partners of the public sector, and sustainable development is not only essential for the future of businesses but for growth and a better quality of life in the country.[43] The private sector has taken on a key role in implementing the SDGs, through capital investments to meet Brazil's targets for reduced GHG emissions. Job creation and higher productivity in MSMEs is also a key factor in the sustainability agenda, since they spur the economy thanks to growth in the productive supply chain and in increased participation by workers in the formal sector. Given the large presence of MSMEs (99.4% of all enterprises) and their high share in job creation (58% in Brazil and 59.1% in the State of São Paulo),[44] MSMEs can become a pillar for sustainable economic recovery, promoting investments that help to improve the quality of life of state residents and the efficient use of natural resources. Support for MSMEs can also play an important role in social inclusion, particularly for women and Afro-descendants, who face greater financing constraints (paragraph 1.4 (ii.b)).

1.7 **Rationale.** Since the 1980s, in Brazil, public investment,[45] specifically investment in infrastructure, has fallen from 5% of GDP to around 1.8% in 2017-2018, which is not even sufficient to cover depreciation.[46] This has been reflected in the low scores for Brazil in different qualitative infrastructure indicators, where it ranks 78th out of 141 countries according to the World Economic Forum (2019). With the recent economic recession, the impacts of the COVID-19 crisis have constrained the public investment budget. This restricts the role of public investment in improving the country's social and economic conditions, as well as the channeling of private investment into the SDGs and the Nationally Determined Contribution (NDC). On the state level, there have also been fewer investments announced in recent periods. The average annual investment announced for the State of São Paulo in real terms[47] for the period 2016-2019 showed a reduction of 47.5% compared to 2011-2015. Given the need to achieve a sustainable recovery, the opportunity for working with the municipalities and the private sector as an effective alternative for promoting the state's sustainability agenda should seek to: (i) improve access to financing for the state's municípios to develop sustainable

42 Data from the Fiscal Policy Observatory.

43 International Institute for Sustainable Development, 2021. The Evolution of Private Sector Action in Sustainable Development.

44 IDB, ABDE, 2021. Apoio às MPMEs na Crisis da COVID-19.

45 The historical data show a reduction in public investment as a percentage of GDP in the last five years in particular. Although spending on investments at the municipal level (as a percentage of GDP) increased in 2020, possibly on account of expenditures to combat the pandemic, in recent years (2016-2020) the level is far below the average verified since 1980 (1980-2015).

46 World Bank, 2017. Back to Planning: How to Close Brazil's Infrastructure Gap in Times of Austerity.

47 Refers to data on announced nominal investments published by SEADE, deflated by the Broad Consumer Price Index published by the IBGE.

infrastructure and investments; and (ii) increase access to financing for MSMEs to enable them to develop sustainable infrastructure and investments.

1.8 **Lessons learned.** The operation will be based on the IDB's experience, particularly in designing operations that provide financing through a global credit loan for municipalities and companies, such as the Program to Promote Local Development in the South (ProSul)" (5204/OC-BR, approved in December 2020 and in the process of being signed) with the Banco Regional de Desenvolvimento do Extremo Sul and, in particular, the Public Infrastructure Management Investment Program for Municipal Efficiency for US$600 million (4691/OC-BR, approved in November 2018 and in execution, with 16.67% disbursed), with Banco do Brasil. Based on the lessons learned from credit programs for municípios, the design of the proposed program should attach particular importance to ensuring effective supervision of bidding processes, establishing financing limits consistent with the use of country systems (paragraphs 2.4 and 3.5) and monitoring financial conditions for the end beneficiaries, while promoting adequate monitoring activities. Based on the Bank's experience in supporting MSMEs to mitigate problems of access to financing, the following lessons learned stand out: (i) promote the countercyclical role of operations of this kind when the supply of credit shrinks, monitoring the financial conditions (paragraph 1.10); and (ii) target resources on the most vulnerable productive sectors, adequately and gradually scaling the financial needs of segments such as women and Afro-descendants, in order to set targets in line with the capacity of the executing agency (paragraphs 1.14 and 1.18).

1.9 **Complementarity with IDB operations**. The goal is to strengthen the capacity of Desenvolve São Paulo (DSP) in line with operation 5492/OC-BR, (approved in March 2022 for US$195 million and in the process of being signed) to facilitate and accelerate the preparation, negotiation, and execution of this program, acting in coordination and supplementing the progress made in training in line with the Bank's technical assistance efforts (paragraphs 1.11 and 1.14).

1.10 **Institutional framework.** The proposals to support the development of sustainable infrastructure and investments reflect Brazil's Regional Development Policy updated in Decree 9,810 of 2019, which guides the federal government's actions to reduce economic and social inequalities, while considering sustainability among its priority objectives. They are also aligned with the recently-approved Integrated Long-term Infrastructure Plan 2021-2050, whose objective is to increase private investment and improve the quality of public spending on infrastructure. The proposals are also consistent with the Brazil's commitment to reduce GHG emissions by 37% by 2025 and by 43% in 2030, compared to 2005 levels in key infrastructure sectors, as established in its NDC. These actions are aligned with the 2021-2022 Recovery Plan of the State of São Paulo which seeks to attract national and foreign private investments to all regions, with a focus on the development of state infrastructure. DSP is a financial agency of the State of São Paulo government, whose mission is to promote the state's sustainable economic development through financial solutions that generate returns, working, in particular, with MSMEs and municípios. During the pandemic, DSP has played a significant countercyclical role by providing financing. The high demand for financing (approximately US$2 billion since the start of the pandemic[48]) has caused

48 In that period, DSP was able to disburse about US$258 million.

the agency to seek new funds from international agencies.[49] Despite the upcoming elections in October 2022, DSP has a Strategic Plan 2022-2026 with which the program is aligned.

1.11 **Nonfinancial additionality.** Beyond the contribution to DSP's financing requirements, the Bank's support has nonfinancial additionality in the form of administrative and technical cooperation resources: (i) strengthening DSP's monitoring and evaluation capacity under ATN/OC-18036-RG (approved for US$2 million as client support), and creating a carbon emissions calculator to measure the impact of investments aimed at climate change mitigation, with resources from ATN/OC-19012-BR (approved for US$315,000 as client support); (ii) developing an environmental and social risk management system (ESMS) for the program which, in turn, will serve as a benchmark for improving DSP's practices, with administrative funds from the Country Department Southern Cone/Brazil Country Office; and (iii) supporting DSP in developing a sustainability framework with funds from ATN/OC-17752-RG (approved for US$200,000 as client support).

1.12 **Gender and diversity considerations.** At present, DSP has no guidelines on gender equality and diversity that contribute to the economic empowerment of women and close the inclusion gaps for Afro-descendants. Accordingly, work will be done with DSP to prepare guidelines for including the perspective of the lending process in these lines of action. It is also important to strengthen institutional capacity to compile data disaggregated by gender and Afro-descendancy on the business level. Through ATN/OC-18036-RG the Bank will support DSP in its initial approach to preparing guidelines and for the definition, compilation, monitoring, and analysis of data disaggregated by gender and ethnicity, considering the leadership and ownership of companies, following international best practices. This program will promote support targeted to businesses operated by women and Afro-descendants and raise the counterpart's awareness of what an adequate approach to assistance for these segments would be, which will help to narrow existing gaps in financing in the medium and long terms.

1.13 **Strategic alignment.** The program is consistent with the second Update of the Institutional Strategy (document AB-3190-2) and is aligned with the development challenges of: (i) Social Inclusion and Equality through its financial support for MSMEs, particularly those located in the most vulnerable areas, and MSMEs headed by women and Afro-descendants, which have greater difficulties in access (paragraphs 1.4(ii.b) and 1.18); and (ii) Productivity and Innovation, through support for medium- and long-term productive financing for MSMEs and financing for sustainable infrastructure by municípios. It is also aligned with the crosscutting themes of: (i) Climate Change, since according to the Joint Methodology of the Multilateral Development Banks for estimating climate finance, 53.73% of the operation's resources are invested in actions to mitigate climate change because they finance investments related to the reduction of emissions and procurement that promotes greater energy efficiency and sustainable urban mobility (paragraph 1.17); (ii) Gender Equality, through financing for infrastructure with gender considerations, ensuring a minimum amount of financing for MSMEs run by women (paragraph 1.14); and (iii) Diversity, through financing for MSMEs and infrastructure with diversity considerations, with a minimum amount of financing for

---

[49] Optional link 6.

MSMEs run by Afro-descendants (paragraph 1.14). The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the emissions avoided indicator.

1.14 The program is also aligned with the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973) through: (a) the priority area to improve the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness; (b) the strategic objectives of: (i) promoting greater economic competitiveness; (ii) increasing the role of the private sector by improving the quality of the business environment; and (iii) narrowing infrastructure gaps; and (c) the crosscutting themes of gender equality and sustainable development. The program is also consistent with the following sector framework documents: Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7), mainly through the expansion of productive financing (particularly for MSMEs); the Housing and Urban Development Sector Framework Document (document GN-2732-11) by promoting resilient urban infrastructure; the Climate Change Sector Framework Document (document GN-2835-3) through the expansion of access to climate financing; and the Gender and Diversity Sector Framework Document (document GN-2800-8) through the increase in financing for MSMEs operated by women and Afro-descendants. The operation is aligned with the Bank's Vision 2025 (document AB-3266), particularly given its support for reactivation of the productive sector by financing investments for SMEs and given that it strengthens gender equality and diversity and climate change mitigation. Lastly, the operation is included in 2022 Operational Program Report (document GN-3087). Lastly, the operation is included in the Update to Annex III of the 2022 Operational Program Report (document GN-3087-2)

B. Objectives, components, and cost

1.15 **Objective.** The program's general development objective is to promote the sustainable development of the State of São Paulo.[50] The specific development objective is to provide medium- and long-term financing to support the development of sustainable infrastructure and investments by municípios and MSMEs in the state.

1.16 **Sole component. Support for the development of sustainable infrastructure and investments in the State of São Paulo (US$110 million).** This component's resources will be used to extend loans to eligible municípios and MSMEs (paragraph 3.4), channeled through DSP, to support the state's sustainable development through public and private infrastructure and investment projects. The projects will meet eligibility criteria that address the challenges identified to ensure a sustainable recovery. For municípios, the funds will be used for loans to finance the following types of projects: (i) in the area of climate change mitigation: (a) energy efficiency projects, including projects to procure efficient equipment and for the adoption of LED in public lighting; (b) projects to generate energy from renewable sources, mainly solar through the use of photovoltaic power plants; and (c) projects for alternative mobility, including bicycle paths, pedestrian walkways, and low-carbon vehicles; and (ii) in the area of social inclusion: (a) projects for

[50] Sustainable development is defined as development that mitigates the effects of climate change and promotes the inclusion of the vulnerable population, gender equality, and diversity.

inclusive urban infrastructure, including considerations related to basic sanitation[51] in the context of paving public streets and rural roads; and (b) procurement of social equipment.[52] For MSMEs, the funds will be used for loans to finance the following types of projects: (i) in the area of climate change mitigation: (a) energy efficiency projects, including the procurement of efficient equipment;[53] and (b) alternative mobility projects, including low-carbon vehicles;[54] and (ii) in the area of social inclusion: (a) financing for productive investments and working capital[55] for MSMEs operated by women, Afro-descendants, or located in more socioenvironmentally vulnerable regions as defined in the program Operating Regulations.[56] The administrative costs will be covered by the executing agency.

1.17 **Climate change mitigation resources.** The program is expected to devote at least 53.73% of the funds (US$59 million) exclusively for investments in climate change mitigation (Table 1), of which 41% (US$24 million) will go to the public sector and 59% (US$35 million) to the private sector. The program Operating Regulations will establish a list of activities eligible for financing, that can be classified as aligned with climate change mitigation efforts, which will serve as the foundation for measuring and monitoring attainment of the results indicator related to climate. The list will be based on information in existing portfolios already supported by DSP and may be updated during the project depending on a case-by-case evaluation. The green investments prioritized for the program comply with the climate finance methodology of the multilateral development banks and the Green Bond Principles of the International Capital Market Association (ICMA).[57]

1.18 **Resources for social inclusion.** The program is expected to devote 46% of the funds (US$51 million) to promote social inclusion, with about 61% (US$31 million) going for inclusive urban infrastructure and 39% (US$20 million) to support MSMEs. The investments in transportation (such as street paving and bicycle paths) comply with the ICMA's Social Bond Principles and the SDGs.[58] It is expected that 50% of the funds to support MSMEs (US$10 million) will go to enterprises in vulnerable areas, 25% (US$5 million) to MSMEs run by women, and 25% to MSMEs run by Afro-descendants (US$5 million). A MSME will be considered to be in a vulnerable area when it is located in one of the most

---

[51] It is important in a road infrastructure project to plan to ensure solid functionality of the paving structure. This being the case, it is also appropriate in the planning of such projects to consider associated aspects of sanitation.

[52] Includes financing for equipment, goods, and technology adaptation to serve persons with disabilities, for basic health care units, family clinics, emergency care units, nurseries, and municipal or state schools.

[53] For example, equipment with efficiency seals.

[54] For example, electric buses.

[55] Investments in fixed capital such as the procurement of goods, vehicles, machinery, and equipment, and working capital to finance their operating costs, such as marketing, input costing, etc.

[56] Funds from technical cooperation operation ATN/OC-18036-RG will be used for institutional scaling activities to prepare DSP to provide better service to MSMEs headed by women and Afro-descendants. An institutional guide to gender and diversity and the groundwork for obtaining data disaggregated by gender and ethnicity will be part of these activities.

[57] Because investments in electromobility are one of the categories that is eligible for green bonds.

[58] The principles governing social bonds establish that one of the eligible categories is accessible basic transportation infrastructure. The target population is the low-income population living on the outskirts of cities with little access to public transportation. These investments will also prioritize access to hospitals, clinics, schools, connecting outlying areas in the state with those services and improving their living conditions. Investments of this kind have a positive impact on SDG 11 (Sustainable Cities and Communities), particularly target 11.2 (affordable, accessible and sustainable transport systems).

disadvantaged municípios, i.e. those in groups 4 and 5 under the IPRS classification. MSMEs will be considered belonging to women when 50% of the company's capital is held by a woman or women, or if they are directed by women. MSMEs will be considered Afro-descendant when 50% of the company capital is held by an Afro-descendant(s) or if they are directed by Afro-descendants.

1.19 **Program beneficiaries.** The beneficiaries of the financing for public and private investments will be eligible municípios and MSMEs in the State of São Paulo who incur expenditures on sustainable infrastructure and/or investments. It is expected that 50% of the funds will go to municípios, benefitting about 53[59] municípios. In turn, spending on public infrastructure will benefit the inhabitants of those municípios.[60] The remaining resources will go to private businesses, benefitting about 850[61] MSMEs. However, this will depend on the demand for credit. The beneficiaries of the program's subloans will meet the eligibility criteria established in the Operating Regulations and DSP's requirements, and maximums will be established for the subloans (paragraphs 3.4 and 3.5).

C. Key results indicators

1.20 **Expected outcomes**. The project is expected to contribute in the medium and long terms to the sustainable development of the State of São Paulo through an increase in employment and sales, GHG emissions avoided, and a higher percentage of roads paved. The project's outcomes will be measured through the following indicators: (i) relative rate of arrears in the portfolio for MSMEs supported with program resources compared to the rate of arrears in loans to MSMEs from the banking system; (ii) percentage of the relevant portfolio lent with an original term of 72 months or more; (iii) total amount of the relevant portfolio used for sustainable financing; and (iv) percentage of financing to mitigate climate change out of the relevant portfolio.

1.21 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits were calculated for the main projects to be financed and consist of: (i) savings of energy and emissions avoided through solar panels or solar power plants and from replacing public lighting with LED bulbs; (ii) savings in travel time from paving public streets and rural roads; and (iii) increases in sales and employment from financing the investments of MSMEs. Once the flows in question were calculated and discounted at 12%, benefits of US$121 million and an internal rate of return of 26% were obtained. The sensitivity analysis indicates that the net present value remains positive in the event of potential variations in a wide variety of determining parameters (optional link 1).

---

[59] The estimate is based on the expected distribution of resources and information from DSP's portfolio on relevant financing for municípios.

[60] The average population per município in the state in 2022 is about 69,600, according to the IBGE.

[61] The estimate is based on the expected distribution of resources, information from DSP's portfolio on average loans to MSMEs, and keeping in mind the private financing expected for each investment.

II. Financing Structure and Main Risks

A. Financing instruments

2.1 **Financing instrument.** This program will be financed by a global credit investment loan, since it involves indirect financing for MSMEs and municípios to finance projects in different sectors that promote the development of the State of São Paulo, through DSP, a public financial institution. The program will use US$110 million from the IDB's Ordinary Capital,[62] with a disbursement period of four years, which is suitable for these types of infrastructure projects to support sustainable development since they have longer execution periods (paragraph 1.16).[63]

Table 1. Estimated program costs (US$)[64]

Component/type of project	IDB (Ordinary Capital)	Total	% of the total
Sole component. Support for the development of sustainable infrastructure and investments in the State of São Paulo	**110,000,000**	**110,000,000**	**100**
Climate change area (CC)	**59,100,000**	**59,100,000**	**54**
CC1: Renewable energy	**37,000,000**	**37,000,000**	**63**
Procurement of solar panels and solar power plants	37,000,000	37,000,000	100
CC2: Energy efficiency	**21,000,000**	**21,000,000**	**36**
Public lighting	16,000,000	16,000,000	76
Other energy efficiency projects of MSMEs	5,000,000	5,000,000	24
CC3: Alternative mobility	**1,100,000**	**1,100,000**	**2**
Low-carbon vehicles and bicycle paths	1,100,000	1,100,000	100
Social inclusion area (SI)	**50,900,000**	**50,900,000**	**46**
SI1: Inclusive urban infrastructure	**30,900,000**	**30,900,000**	**61**
Paving public streets and rural roads	30,300,000	30,300,000	98
Procurement of social equipment	600,000	600,000	2
SI2: Financing for MSMEs	**20,000,000**	**20,000,000**	**39**
Financing for MSMEs located in vulnerable areas	10,000,000	10,000,000	50
Financing for MSMEs run by women	5,000,000	5,000,000	25
Financing for MSMEs run by Afro-descendants	5,000,000	5,000,000	25
Total	**110,000,000**	**110,000,000**	**100%**

62 The New Development Bank (NDB) will provide the equivalent of up to US$90 million as parallel financing for the program. The NDB's policies and procedures will be used in managing those funds. The line operated with the NDB will mainly be targeted mainly to the public sector for areas different from those financed under this program, such as water and sanitation, and urban drainage.

63 The law authorizing the state executive branch to issue a counter guarantee to the guarantee of the Federative Republic of Brazil under the present program was passed by the state legislative assembly (Law 17,302/2020, as amended by Law 17,472/2021).

64 The distribution of resources is indicative.

2.2 The resources will be committed and disbursed in four years after the loan contract comes into effect, as shown in Table 2.

Table 2.:Projected disbursements (US$ million)

	Year 1	Year 2	Year 3	Year 4	Total
Amount	55	27.5	13.75	13.75	**110**
%	50	25	12.5	12.5	**100**

B. Environmental and social risks

2.3 In accordance with the Environmental and Social Policy Framework (document GN-2965-23), the operation is classified as financial intermediation with a substantial environmental and social risk. The operation will not finance subprojects in Category A or activities on the IDB's exclusion list. Subprojects with negative impacts on natural habitats or cultural sites that require resettlement, physical displacement, or purchase of indigenous land will not be financed. DSP already has environmental and social management procedures that comply with national legislation and serve as the basis for the ESMS for the classification, approval, execution, and monitoring of the socioenvironmental considerations of subprojects financed by the IDB. Subprojects that finance the installation of solar panels will take steps to avoid, manage, and monitor the risk of forced labor in the solar panel supply chain in accordance with IDB Group Measures to Address Risk of Forced Labor (document GN-3062-1). The Operating Regulations include provisions on the implementation of environmental and social mitigation measures such as questionnaires and/or declarations associated with the primary suppliers of solar installations, considering market conditions and industrial standards. See required link 2 for more details.

C. Fiduciary considerations

2.4 Fiduciary management of this operation is subject to the requirements of Bank policies (documents GN-2349-15 and GN-2350-15). The assessment of the institutional capacity of DSP performed during preparation of project 5492/OC-BR was updated. The results indicate that DSP has the necessary capacity to manage the actions to be performed in the operation. It has experience in the satisfactory execution of public funds from other development banks and multilateral agencies (paragraph 3.8), but since it has not yet executed an IDB operation, its capacity to manage projects, monitor public procurement processes, and manage finances in accordance with IDB policies will be strengthened through technical cooperation operations ATN/OC-18036-RG (paragraph 1.11). Moreover, as indicated in required link 2, the Bank will support DSP in strengthening its capacity for environmental and social management and due diligence of the subprojects, which will include the development of adequate environmental and social management structures.

D. Other risks and key issues

2.5 **Other risks.** Three medium-high risks have been identified: (i) Economic-financial environment: If the 2022 elections or the COVID-19 pandemic affect the investment expectations of MSMEs before the start of execution of the contract

with the Bank, the demand for DSP resources will be affected, impacting the total use of project funds. This risk will be mitigated through preparation of a marketing plan, a campaign to identify demand, and state government actions. (ii) Political environment: If the state government changes in the 2022 elections, preparation or execution of the project may be affected by delays in legislative authorization of the project, which will lead to delays in the program. This risk will be mitigated on the basis of the DSP Strategic Plan 2022-2026 and by strengthening relations with state government institutions, as well as the Department of International Affairs, the Oversight Office of the National Treasury, the National Treasury Department, and the Federal Legislature to streamline the necessary approvals. (iii) Technical design: If DSP's team lacks specialized technical knowledge to monitor the IDB's new social and environmental safeguards policy and improve the ESMS, as well as the gender and Afro-descendant commitments, the response time and implementation of the project's outputs could be affected, compromising compliance with the project's physical and financial planning. This risk will be mitigated by deepening technical cooperation between the two institutions, strengthening DSP's institutional capacity to manage the socioenvironmental risks of high-risk projects, and to monitor with a gender and Afro-descendant approach.

2.6 **Sustainability.** Given the context of a recovery from one of the worst economic and health crises in its history, Brazil's fiscal position could deteriorate, as could the capacity of municípios to develop sustainable infrastructure and investment projects. However, DSP has a proven track record of countercyclical action, in which it has developed financial solutions with terms tailored to the financial profile for sustainable investments. DSP can offer attractive conditions on the market for this segment, which should stimulate demand. DSP also wants to play a lead role in the promotion of the SDGs and low-carbon, climate-resilient investments, in accordance with its public development mandate (optional link 4 and optional link 7). The deepening of technical cooperation between the two institutions (paragraphs 2.4 and 2.5) will build DSP's capacity to solve these challenges.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower, executing agency, and guarantor.** The borrower and executing agency will be DSP, and the Federative Republic of Brazil will be guarantor of the borrower's financial obligations. DSP is a decentralized public agency of the State of São Paulo and is legally established as a corporation under federal laws 6,404 of 15 December 1976 and 13,303 of 30 June 2016. DSP meets the eligibility requirement of being a public sector borrower established in the policy governing eligible borrowers (Operational Policy OP-301). DSP will bear fiduciary responsibility for program resources and will execute the program using its current organizational structure.

3.2 **Institutional capacity.** The results of the institutional capacity assessment indicate that DSP has the technical and financial capacity to manage the actions to be undertaken as part of the operation. The main opportunities identified for institutional strengthening of DSP are: (i) training in the IDB's policies and methods; and (ii) the governance structure, with the definition of roles and

responsibilities for project execution. The Bank will provide technical cooperation funding to support the institutional strengthening of DSP (paragraphs 1.11 and 2.4). The Operating Regulations (paragraph 16.1) also define the institutional coordination mechanism and establish a focal point with the Bank.

3.3 **Execution mechanism.** Based on the results of the institutional capacity assessment, DSP will bear fiduciary responsibility for the loan proceeds, and will manage project execution and ensure adequate compliance with the loan contract and the Operating Regulations. DSP's existing structure will be used for these tasks, without establishing a specific unit: (i) the Office of the Financial Superintendent, or another office succeeding it with the same legal authority and jurisdiction, with prior Bank approval for purposes of the program, will be responsible for arrangements with the Bank relating to program execution, and for management of the operation's funds and financial conditions; and (ii) the Office of the Superintendent for Planning, or another office succeeding it with the same legal authority and jurisdiction, with prior Bank approval for purposes of the program, will be responsible for monitoring the program's impact indicators. If additional operational functions are identified for program management, representatives from other DSP units will be designated.

3.4 **Beneficiary eligibility**. The eligibility criteria for MSMEs and municípios to receive program financing are described in the Operating Regulations. For MSMEs the criteria include: (i) being a company established under Brazilian law; (ii) complying with Brazilian environmental and labor legislation; (iii) meeting the requirements to qualify as an MSME according to the criteria used by DSP; (iv) being eligible to obtain a loan; (v) being solvent; and (vi) operating in the state of São Paulo. For municípios, the criteria include: (i) being one of the 645 municípios recognized by the São Paulo State Legislative Assembly; (ii) having the financial, administrative, technical, legal, and environmental capacity and observing applicable legislation; (iii) complying with the DSP credit policies applicable to operations with the public sector; and (iv) observing applicable regulations for contracting a loan with a financial institution.

3.5 **Financing amounts and limits**. The maximum program financing per eligible operation was established on the basis of recent demand reported by DSP, the heterogeneity of the loans made in earlier operations in Brazil, the limits established in the DSP's own credit lines, and the high investment costs of the projects expected to be financed by the program (renewable energy generation, energy efficiency, road paving, and public lighting) and will depend on the type of beneficiary: (i) MSMEs: equivalent to US$1 million for sustainable investments; and (ii) municípios: equivalent to US$10 million for sustainable infrastructure and US$2 million to procure equipment or make other sustainable investments. These maximum financing amounts are established to attend to the needs identified by DSP for the different types of interventions and for the different types of program beneficiaries and to respond to the nature of the intervention which, in essence, seeks to finance sustainable infrastructure and investment projects by municípios and MSMEs. In particular, DSP has found that interventions involving green

projects and paving need financing close to the proposed limits[65] (see optional link 6 for more details). However, it is anticipated that the average loan for MSMEs will be less than US$100,000, according to historical data from DSP reflecting a larger number of transactions for smaller beneficiaries.

3.6 **Operating Regulations.** Program execution will be governed by the loan contract and the Operating Regulations which, in addition to describing execution, will include the following as a minimum: (i) the program's organizational plan; (ii) specific procedures, conditions, and requirements governing the use of resources and program financial management; (iii) selection criteria and eligibility conditions for each instrument and for municípios and beneficiary businesses; (iv) programming, monitoring, and evaluation; (v) audits; (vi) environmental and social considerations; and (vii) considerations related to the Bank's prohibited practices.

3.7 **Special contractual condition precedent to the first disbursement of the financing: The borrower submits evidence that the program Operating Regulations have been approved and have taken effect in terms agreed upon in advance with the Bank.** This condition is necessary to guarantee adequate program execution, since the Bank's experience in the region shows that approval of the Operating Regulations prior to the first disbursement contributes to the internal organization of the executing agency for successful implementation of the operation.

3.8 **Exceptions to Bank policies.** The Board of Executive Directors is asked to approve a partial waiver of the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) so that the borrower's financial operations are guaranteed solely by the Federative Republic of Brazil, waiving the need for the State of São Paulo to guarantee the borrower's performance obligations and the local counterpart. This request is justified because there is no express provision in local legislation that allows the state to issue a guarantee that covers the performance obligations related to the program. DSP has the legal status and authority to carry out program activities, and has its own assets, and administrative, technical, and financial independence. It has also successfully executed funds from second-tier public development banks in Brazil, such as Banco Nacional de Desenvolvimento Econômico e Social [Economic and Social Development Bank] (BNDES) and the Financiadora de Estudos e Projetos [Studies and Projects Funding Agency] (both are borrowers and executing agencies of programs with the IDB), and multilateral agencies (Development Bank of Latin America and the International Finance Corporation).

3.9 **Disbursements.** Program resources will be disbursed by the IDB to DSP in the form of advances and/or reimbursements, as established in the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the IDB's current policies. Disbursement requests will be accompanied by the information described in the Operating Regulations. Disbursements will be subject to ex post verification. In all cases, prior to proceeding with disbursements, the

[65] It is estimated that between 5 and 10 loans to MSMEs in the renewable energy and energy efficiency categories may approach the limit of US$1 million.

portfolio of subloans to be granted under the program will be subject to review by the IDB.

3.10 **Retroactive financing.** The Bank may retroactively finance up to US$22 million (20% of the proposed loan) for eligible expenditures incurred by the borrower prior to the loan approval date, related to disbursements to municípios and/or MSMEs in the categories indicated in the program's Sole Component (paragraph 1.16) provided requirements substantially similar to those established in the loan contract have been met. The retroactive financing is particularly important to ensure the timely disbursement of the resources, given the sustainable recovery needs following the COVID-19 pandemic and the opportunity to supplement the NDB's parallel financing resources.[66] These expenditures will have been incurred after the project profile approval date (10 February 2022), but in no event include expenditures incurred more than 18 months prior to the loan approval date (documents GN-2349-15, GN-2350-15, and GN-2259-1).

3.11 **Procurement.** Since this is a financial intermediation program that is demand-based, no procurement of works, goods, services, or consulting services is expected to be needed as part of execution. Therefore, the loan proposal does not include an execution plan or a procurement plan. All procurement of services and consulting contracts required as part of project administration and/or evaluation will comply with the Policies for the procurement of works and goods financed by the IDB (document GN-2349-15) and the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-15) or subsequent updates thereof. For more details, consult the Fiduciary Agreements and Requirements (Annex III).

3.12 **Financial statements and audits.** The executing agency will submit the program's audited annual financial statements in accordance with terms of reference agreed upon with the IDB within 120 days after the close of the fiscal year and after the final disbursement. The financial reports will be audited by an independent audit firm considered eligible by the IDB, following the procedures established in document OP-273-12 and current instructions.

B. Summary of arrangements for monitoring results

3.13 **Monitoring.** The program will be monitored through semiannual status reports by the executing agency, submitted within 60 days after the end of each six-month period. As a starting point, the reports will use the information commitments in the Results Matrix and compliance with the eligibility criteria established in the Operating Regulations.

3.14 **Information for program monitoring and evaluation.** This proposal will include a project monitoring report on fulfillment of the specific objectives described herein. The executing agency will be responsible for maintaining the data compilation and monitoring systems (monitoring and evaluation plan (MEP)): (i) it will undertake to maintain a monitoring and evaluation system for all components, on the basis of which it will prepare the reports and data to be submitted to the Bank; and (ii) it will compile, store, and safeguard all the data, indicators, and parameters, including

66 Formally approved on 22 March 2022.

the annual plans and the final evaluation needed to prepare the project completion report. Any additional information required for the final evaluation will come from secondary national and international statistical sources and possible reports by relevant organizations. The monitoring costs will be the responsibility of the executing agency in all cases.

3.15 **Evaluation.** The strategy for evaluating the results of the program's planned activities will consist of the following approaches: (i) a reflexive evaluation to demonstrate the scope of the results and impacts; and (ii) a qualitative analysis covering details and lessons learned during program execution. The final evaluation will be performed within 60 days after the date the program closes. The evaluation strategy is described in the MEP.

Development Effectiveness Matrix		
Summary	BR-L1582	
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Emissions avoided (annual tons CO2 equivalent)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	Improve the business climate and narrow gaps in sustainable infrastructure for enhanced competitiveness. Strategic objectives of: (i) Promote greater economic competitiveness; (ii) increase the role of the private sector by improving the quality of the business environment; (iii) Narrow infrastructure gaps. Crosscutting themes: gender equality and sustainable development.
Country Program Results Matrix	GN-3087-2	The intervention is included in the 2022 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	8.1	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	1.6	
3.3 Results Matrix Quality	4.0	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	1.5	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	2.5	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	8.2	
5.1 Monitoring Mechanisms	3.4	
5.2 Evaluation Plan	4.8	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium Low	
Environmental & social risk classification	FI	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, Internal Audit. Procurement: Information System, Price Comparison.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The program has non-financial additionality through ATN/OC-19012-BR, ATN/OC-17752-RG and ATN/OC-18036-RG

Evaluability Assessment Note:

The PROGRAMA DESENVOLVE SP – SUSTAINABLE INFRASTRUCTURE consists of Global Credit Program that will finance a regional development agency (Desenvolve SP) with a total budget equivalent to US$ 110 million. The loan proposal's general objective (GO) is to promote the sustainable development of the State of São Paulo. It sets as specific objective (SO) to supply medium and long-term loans to support the development of sustainable infrastructure and investment by municipal governments and micro, small, and medium companies (MSMEs) in the state of São Paulo. Following the ODS goals, sustainable development is structured in the project with two main vertents: environmental and social.

The interventions will focus on: i) alleviating credit constraints that affect MSMEs growth (including those whose owners are part of vulnerable populations); and ii) promoting investments that could help companies and municipalities to increase their energetic efficiency and reduce their impact towards climate change. The project's diagnosis is clear, with evidence supporting both credit constraints and climate change as relevant development challenges for the state of São Paulo. The vertical logic is consistent with the Results Matrix (MdR) and both the problems and the solutions proposed by the project are credible. The results matrix includes indicators associated both with the GO and with the SO, and their targets are reasonable and supported by evidence.

The economic analysis is adequate, consistent with the vertical logic, and supported by standard assumptions (including the 12% discount rate) and sensitivity analyzes. The estimated net present value of the program is US$ 121,000,000, and the internal rate of return is 26%.

The evaluation plan is reasonable, as it proposes to carry out a before and after analysis of the indicators associated with specific and general objectives, but no ex-post economic analysis. Finally, this exercise will not allow the empirical attribution of the results obtained.

RESULTS MATRIX

Project objective:	The specific objective of this operation is to provide medium- and long-term financing to support the development of sustainable infrastructure and investments by municípios and MSMEs in the State of São Paulo. Attainment of this objective will contribute to the general objective of promoting the state's sustainable development.[1]

General development objective

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To promote the sustainable development of the State of São Paulo.							
Indicator 1: Difference between annual growth in employment in the MSMEs supported by the program compared to a control group	Percentage points	0	2022	2027	4	Program monitoring information compiled by DSP and the Annual Social Information Report	This indicator measures the difference in average annual growth in employment in MSMEs supported by the program compared to a control group. The baseline is zero, assuming that there is no difference in employment by MSMEs and the control group prior to the loans. The proposed ex ante target of 4 percentage points is based on the results of the impact evaluation of interventions by BNDES with its different credit lines (Grimaldi et al., 2018).
Indicator 2: Difference between average annual growth in sales by the MSMEs supported by the program compared to a control group	Percentage points	0	2022	2027	4	Program monitoring information compiled by DSP and PIA-IBGE or PIS-IBGE	This indicator measures the difference in average annual growth in sales by the MSMEs supported by the program compared to a control group. The baseline is zero, assuming that there is no difference in sales by MSMEs and the control group prior to the loans. The proposed ex ante target of 4% is based on the results of the impact evaluation of interventions by BNDES with its different credit lines (Grimaldi et al., 2018).

1 Sustainable development is defined as development that mitigates the effects of climate change and promotes the inclusion of vulnerable groups, gender equality, and diversity.

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
Indicator 3:[2] Carbon emissions avoided annually thanks to the investments to mitigate climate change supported by the program	tCO_2	0	2022	2042	30,354	Program monitoring information compiled by DSP and the Ministry of Science, Technology, and Innovation	This indicator will measure the reduction in carbon emissions thanks to the investments in energy efficiency projects (public lighting with LED) and distributed energy generation (solar panels and solar farms) supported by the program. The target was estimated based on typical benchmarks provided by DSP.
Indicator 4. Paved roads for every 100 km^2 of road surface per município	km	78,22	2021	2027	78.29	Program monitoring information compiled by DSP and the IBGE or the state Roads Department	This indicator will measure kilometers of paved roads per município compared to its total road surface. The baseline and target were estimated based on data available for the state.

Specific development objectives

Indicator	Unit of measure	Baseline value	Baseline year	End of project (2026)	Means of verification	Comments
<u>Specific development objective</u>: To provide medium- and long-term financing to support the development of sustainable infrastructure and investments by municípios and MSMEs in the State of São Paulo.						
Indicator 1: Rate of arrears in the relevant portfolio for MSMEs supported by the program compared to the rate of arrears in loans to MSMEs from the banking system	Ratio	0.9	2021	0.9	Program monitoring information compiled by DSP	The numerator is the arrears rate in DPS's portfolio for private sector investments[3] which is 2.15% according to the most recent data available (March 2022) The denominator is the market arrears rate for MSMEs of 2.43% according to the most recent data from the BCB (January 2022). Accordingly, the baseline is 0.9 The target is to maintain that ratio up to the end of the program.

[2] This indicator is aligned with the CRF indicators.
[3] "Relevant portfolio" refers to financing for sustainable investments (in climate change mitigation and social inclusion) granted to municípios and MSMEs.

Indicator	Unit of measure	Baseline value	Baseline year	End of project (2026)	Means of verification	Comments
Indicator 2: Percentage of the relevant portfolio lent with an original term of 72 months or more	%	55.9	2021	57.3	Program monitoring information compiled by DSP	The baseline was obtained from DSP data, which indicates that 55.9% of the relevant portfolio is for terms of 72 months or more. Considering the current intervention, in agreement with DSP, the target for the end of the program is 57.3%. This target was calculated considering that 100% of the program funds will be lent for terms of at least five years, with 59% for 72 months or more.
Indicator 3: Total amount of the relevant portfolio used for sustainable financing	US$ million	118.8	2021	228.8		The relevant portfolio consists of the total credit available for sustainable investments in social inclusion and climate mitigation by municípios and MSMEs. The baseline is R$662,755,457, equivalent to US$118,773,379, using the Central Bank of Brazil’s exchange rate as of 31 December 2021 of 5.58. The target is the sum of the baseline and Component 1 of the program.
Indicator 4: Percentage of financing to mitigate climate change out of the relevant portfolio	%	25	2021	39		The baseline corresponds to information on DSP’s green portfolio for 2021. Relevant climate financing was R$167,468,369 as of 31 December 2021. Formula = Financing for climate investments/relevant portfolio. The target will be to increase the baseline from 25% to 39%, considering the portion of program funds to be used to mitigate climate change (US$59 million) over the target for the relevant portfolio (in indicator 3), keeping the rest constant.

Indicators

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Sole component: Support for the development of sustainable infrastructure and investments in the State of São Paulo (US$110 million).										
Output 1 :* Amount for investments in climate change mitigation	US$ million	0	2022	29.5	14.8	7.4	7.4	59.1	Monitoring information processed by DSP	This amount refers to total financing for investments associated with climate change mitigation (54% of program resources). The final target is US$59.1 million.
Cost Output 1.	US$ million	0	2022	29.5	14.8	7.4	7.4	59.1		The total estimated cost is US$59.1 million.
Milestone 1: Number of municípios benefitting from program financing	Number	0	2022	To be determined**						This target reflects the total number of beneficiary municípios. The final number will be determined by demand.
Milestone 2: Total number of beneficiary MSMEs	Number	0	2022	To be determined**						This target reflects the total number of beneficiary MSMEs. The final number will be determined by demand.

* The value of the final target is the cumulative value all the years of execution.
** Will be measured as information from execution is compiled.

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Output 2*: Amount for investments in social inclusion, excluding financing for MSMEs operated by women and Afro-descendants	US$ million	0	2022	20.5	10.2	5.1	5.1	40.9	Monitoring information compiled by DSP	This amount refers to financing for social inclusion (46% of program resources) less the funds earmarked exclusively for MSMEs operated by women and/or Afro-descendants. The final target is US$40.9 million.
Cost Output 2.	US$ million	0	2022	20.5	10.2	5.1	5.1	40.9		The estimated total cost is US$40.9 million.
Output 3*: Amount of financing for MSMEs operated by women	US$ million	0	2022	2.5	1.3	0.6	0.6	5		This amount refers to financing for MSMEs operated by women (25% of the financing for MSMEs in the area of social inclusion). The final target is US$5 million.
Cost Output 3.	US$ million	0	2022	2.5	1.3	0.6	0.6	5		The estimated total cost is US$5 million.

Indicator	Unit of measure	Base-line value	Base-line year	Year 1	Year 2	Year 3	Year 4	End of project	Means of verification	Comments
Milestone 3: Number of MSMEs operated by women	Number	0	2022	To be determined**						This target reflects the number of beneficiary MSMEs operated by women. The final number will be determined by demand.
Output 4:* Amount of financing for MSMEs operated by Afro-descendants	US$ million	0	2022	2.5	1.3	0.6	0.6	5	Monitoring information processed by DSP	This amount refers to financing for eligible MSMEs operated by Afro-descendants (25% of the financing for MSMEs in the area of social inclusion).
Cost Output 4.	US$ million	0	2022	2.5	1.3	0.6	0.6	5		The estimated total cost is US$5 million.
Milestone 4: Number of MSMEs operated by Afro-descendants	Number	0	2022	To be determined**						This target reflects the number of beneficiary MSMEs operated by Afro-descendants. The final number will be determined by demand.

Country: Brazil **Division:** IFD/CMF **Operation number:** BR-L1582 **Year:** 2022

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Agência de Fomento do Estado de São Paulo S.A. (Desenvolve São Paulo-DSP)

Name of the operation: Desenvolve SP Program – Sustainable Infrastructure

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems for the operation

☒ Budget	☐ Reports	☒ Information system	☐ National competitive bidding (NCB)
☒ Treasury	☒ Internal audit	☒ Shopping	☐ Other
☒ Accounting	☐ External control	☐ Individual consultants	

2. Fiduciary execution mechanism

☒	Special features of fiduciary execution	DSP, as a financial intermediary, will provide subloans to municípios and micro, small, and medium-sized enterprises (MSMEs) through its traditional lines of financing to support subprojects for climate change and social inclusion. Projects for alternative urban mobility, energy efficiency, renewable energy, and inclusive urban infrastructure will be financed, and direct financing will be provided to MSMEs. The project will direct US$55 million to municípios and US$55 million to MSMEs. Considering that each subloan to municípios will not exceed the threshold established for national competitive bidding, local requirements may be used for procurement. The MSMEs will use private procedures in accordance with paragraph 3.37 of the procurement policies indicated in section 5 below. Program Operating Regulations will reinforce the fiduciary, social, and integrity obligations required in financial intermediation operations, as well as the eligibility requirements of the intermediaries and the end beneficiaries. According to the results of the institutional capacity assessment, DSP will bear fiduciary responsibility for program resources, which it will manage during project execution, and oversee adequate compliance with the loan contract and the Operating Regulations. To do so, DSP's existing structure will be used, without the need to establish a specific unit. The project will receive parallel financing of US$90 million from the New Development Bank. Each agency will perform its supervision independently.

3. Fiduciary capacity

Fiduciary capacity of the executing agency	The results of institutional capacity assessment performed during preparation of loan 5492/OC-BR indicate that DSP has the necessary capacity to manage the actions to be performed in the operation. DSP has policies and procedures for the preparation, approval, and supervision of loans and for project management (including procurement, human resources, financial, socioenvironmental, and occupational management). It also has robust institutional financial and accounting systems, with opportunities for improvement in preparing specific financial reports for project management. It has a project selection and evaluation system and a system for their physical execution that permits adequate control over the agreements established in the proposed operation. DSP has experience in the satisfactory execution of public funds from other development banks and multilateral agencies, but since it has not yet executed an IDB operation, its capacity to manage projects, monitor the procurement processes of public clients, and manage finances in accordance with Bank policies will be strengthened.

4. Fiduciary risks and risk response

Type of risk	Risk	Level	Response
Internal processes	If DSP's systems were to be ineffective in project preparation and support, delays could occur in the submission of financial information that could adversely affect or delay disbursement requests.	Medium-low	Monitoring
Legal environment	If the external control entities question the bidding processes issued by municípios, the reputation and execution of the eligible portfolio could be affected.	Low	Monitoring

5. Policies and guidelines applicable to the operation: documents GN-2349-15 and GN-2350-15.

6. Exceptions to policies and guidelines: None.

II. Considerations for the Special Provisions of the Loan Contract

Exchange rate: For the purposes of Article 4.10 of the General Conditions, the parties agree that the applicable exchange rate will be the rate indicated in paragraph (b)(i) of that article. To determine the equivalence of expenditures incurred in local currency for which reimbursement is requested from the loan, the exchange rate will be the rate on the date the borrower, the executing agency, or any person or legal entity empowered to incur expenditures makes disbursements to eligible beneficiaries of the subloans.

III. Agreements and Requirements for Procurement Execution

☒	Projects with financial intermediaries	Since this is a loan for global credit programs and other operations in which resources will be provided for financial intermediaries to grant subloans or some other type of subfinancing, the agreements between the executing agency, its financial intermediaries, and its end beneficiaries will include the clauses on practices that are prohibited by the Bank. Should it not be possible or practical given the project's circumstances to include those clauses in the contracts, the project team may study other mechanisms for adopting acceptable controls and duly bind the pertinent third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, and will be supported by the Bank's Legal Department and included in the Operating Regulations.
☒	Advance procurement/ retroactive financing	The Bank may retroactively finance from the loan proceeds up to US$22 million (20% of the proposed loan) for eligible expenditures incurred by the borrower prior to the date the loan is approved related to disbursements to municípios and/or MSMEs in the categories indicated in the Sole Component, provided requirements substantially similar to those established in the loan contract have been met. The retroactive financing is particularly important to ensure the timely disbursement of the resources, given the sustainable recovery needs following the COVID-19 pandemic and the opportunity to supplement the NDB's parallel financing resources. The expenditures will have been incurred after the project profile approval date (10 February 2022), but in no event include expenditures incurred more than 18 months prior to loan approval date (documents GN-2349-15, GN-2350-15, and GN-2259-1).

IV. Agreements and Requirements for Financial Management

☒	Treasury and disbursement management	The project will use DSP's treasury system. Expenditures will be subject to the budget and financial execution process and duly recorded in the financial information system. The Bank's funds will be administered through an exclusive account that will permit the loan proceeds to be identified and the respective bank reconciliations to be performed. Disbursements will be made in U.S. dollars in the form of advances of funds. They will be based on projected financial requirements for a maximum of 180 days. For future advances, it will be necessary to justify at least 80% of total prior advances. The exchange rate agreed on with the executing agency for reporting expenditures paid with advances of funds will be the conversion rate. To determine the equivalence of expenditures incurred in local currency or for reimbursing expenditures from the loan, the agreed rate will be the exchange rate established by the Central Bank of Brazil in effect on the actual date of payment of eligible project expenditures.

☒	Accounting information systems and reporting	DSP will use the SOFTPAR system, which integrates financial, budget, accounting, and cash management. The system can be audited and has access profiles and security guidelines. It also complies with the minimum quality requirements demanded by the Central Bank of Brazil and the IDB related to integration and controls, and will be used for financial execution of the program. The financial reports required by the IDB for the presentation of reimbursement requests and expenditure justifications and those necessary for the external audits will be prepared based on the records in SOFTPAR, with support from appropriate software tools.
☒	External control and financial reports	DSP will select the services of an external auditor in accordance with terms of reference agreed upon by the executing agency and the Bank, which will establish the type of review, time frames, and scope. The selected external auditor and the auditing standards to be applied will be acceptable to the Bank. External control will be performed by a firm of external auditors acceptable to the Bank. The audited annual financial reports will be submitted within 120 days after the close of each fiscal year. The final reports will be submitted within 120 days after the final disbursement or any extensions thereof. Reasonable assurance reports on the justifications of expenditures or disbursement requests submitted by the DSP to the Bank are defined as audited financial statements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/22

Brazil. Loan ____/OC-BR to the Agência de Fomento do Estado de São Paulo S.A. (Desenvolve São Paulo – DSP). Desenvolve SP Program – Sustainable Infrastructure

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 Agência de Fomento do Estado de São Paulo S.A. (Desenvolve São Paulo – DSP), as borrower, and with the Federative Republic of Brazil, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Desenvolve SP Program – Sustainable Infrastructure. Such financing will be for the amount of up to US$110,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2022)

LEG/SGO/CSC/EZSHARE-620307903-41927
BR-L1582