

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**FEDERATIVE PROGRAM FOR SMART PUBLIC SECURITY
(PROSEG-FEDERATIVO)**

(BR-L1547)

**THIRD INDIVIDUAL OPERATION UNDER THE PRO-SEGURANÇA
CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)**

(BR-O0011)

LOAN PROPOSAL

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CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problem addressed, and rationale	1
B.	Objectives, components, and cost	10
C.	Key results indicators	13
II.	FINANCING STRUCTURE AND MAIN RISKS	13
A.	Financing instrument	13
B.	Environmental and social risks	14
C.	Other key issues and risks	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN	15
A.	Summary of implementation arrangements	15
B.	Summary of arrangements for monitoring results	18
IV.	ELIGIBILITY CRITERIA	19

APPENDIXES

Proposed resolution

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

LINKS
REQUIRED
1. Multiyear execution plan and annual work plan
2. Monitoring and evaluation plan
3. Environmental and social management report
OPTIONAL
1. Economic analysis
1.A. Report
1.B. Spreadsheets on results-based management , parental program , hot spots policing , and cognitive behavioral therapy
2. Program Credit Regulations
3. List of the 315 eligible municipal governments
4. Vertical logic matrix and menu of solutions
5. Macroeconomic context at the subnational level in Brazil
6. Bibliography
7. Empirical evidence
8. Safeguard policy filter

ABBREVIATIONS

BNDES	Banco Nacional de Desenvolvimento Econômico e Social [Brazilian Economic and Social Development Bank]
CCLIP	Conditional credit line for investment projects
CGU	Office of the Comptroller General
FBSP	Fórum Brasileiro de Segurança Pública [Brazilian Public Security Forum]
MJSP	Ministry of Justice and Public Security
OECD	Organisation for Economic Co-operation and Development
PEFB	Em Frente, Brasil [Stand up, Brazil] Program
PNSPDS	Plano Nacional de Segurança Pública e Defesa Social [National Public Security and Social Defense Plan]
PROGEINFRA	Programa de Investimento em Gestão de Infraestrutura Pública para Eficiência Municipal [Public Infrastructure Management Investment Program for Municipal Efficiency]
PROSEG-Federativo	Federative Program for Smart Public Security
SAIN	Secretaria de Assuntos Internacionais [International Affairs Department]
SUSP	Sistema Único de Segurança Pública [Unified Public Security System]
TCU	Tribunal de Contas da União [Federal Court of Accounts]

PROJECT SUMMARY
BRAZIL
FEDERATIVE PROGRAM FOR SMART PUBLIC SECURITY (PROSEG-FEDERATIVO)
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THIRD INDIVIDUAL OPERATION UNDER THE PRO-SEGURANÇA CONDITIONAL CREDIT LINE FOR INVESTMENT
PROJECTS (CCLIP)
(BR-O0011)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility ^(a)	
Brazilian Economic and Social Development Bank (BNDES)			Amortization period:	25 years
Guarantor:				
Federative Republic of Brazil			Disbursement period:	5 years
Executing agency				
BNDES			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based ^(c)
IDB (Ordinary Capital):	150,000,000	83	Credit fee:	(d)
Local:	30,000,000	17	Inspection and supervision fee:	(d)
Total:	180,000,000	100	Weighted average life:	15.25 years
			Approval currency:	U.S. dollar
Project at a Glance				
Project objective: The general objective of this operation is to help reduce crime rates in the targeted communities (state and municipal governments). The specific objective is to expand the scope of crime prevention and reduction programs. This project is the third individual loan operation under the Pro-Segurança CCLIP (BR-O0011) approved by the Board of Executive Directors through Resolution DE-129/20.				
Special contractual condition precedent to the first disbursement of the loan proceeds: The executing agency will submit to the Bank evidence of the entry into force of the program Credit Regulations under the terms agreed upon with the Bank (paragraph 3.7).				
Exceptions to Bank policies: For this operation, as for previous loan operations with BNDES, the guarantee of the Federative Republic of Brazil will be limited to BNDES's financial obligations under the loan (including repayment of principal, interest payments, and other financial charges) and will not cover the performance obligations of BNDES or the local counterpart contribution. Consequently, the Board of Executive Directors is asked to consider approval of a partial waiver of the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) – revised version (document GP-104-2) (paragraph 3.4).				
Strategic Alignment				
Challenges: ^(e)	SI <input checked="" type="checkbox"/>		PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes: ^(f)	GE <input checked="" type="checkbox"/> and DI <input checked="" type="checkbox"/>		CC <input type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, and commodity 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 that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank, pursuant to the provisions of the loan contract.

^(d) 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 the applicable policies.

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

^(f) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Brazil: background and context

- 1.1 This project is the third individual operation under the Pro-Segurança conditional credit line for investment projects (CCLIP) ([BR-O0011](#)) approved by the Board of Executive Directors on 18 November 2020 together with the first individual operation (loan [5155/OC-BR](#)).¹ The CCLIP will be for up to US\$1.2 billion to be allocated over a period of 10 years. The objective of the CCLIP, which is a Multisectoral II (MM-II) program pursuant to the applicable Bank policy (document GN-2246-13), is to improve the efficiency and effectiveness of public security and justice programs in Brazil, specifically in the following sectors: (i) public security management and governance; (ii) prevention of violence; (iii) modernization of policing practices; and (iv) justice and social reintegration. This is the first individual operation in the public security management and governance sector.
- 1.2 **The CCLIP has three possible resource allocation channels.** One of these is through national or regional development banks that participate in the corresponding subnational security plan and can boost the capillarity and scope of the Bank's work through onlending to several subnational entities for specific investments.² This is the first operation in this channel, and the executing agency will be the Brazilian Economic and Social Development Bank (BNDES), one of Brazil's largest national development banks.
- 1.3 **Macroeconomic context and COVID-19 in Brazil.** The pandemic has had a major impact on the Brazilian economy. The country's gross domestic product (GDP) fell by 4.1% in 2020 and, according to the [Central Bank's Focus Report \(24 September 2021\)](#), is projected to grow by 5.04% in 2021 and 1.57% in 2022. Government measures to cushion the impact of the pandemic already amount to more than 8.5% of GDP.³ They include steps to protect the most vulnerable population segments, informal workers, and small and medium-sized enterprises, and to shore up the country's finances at the subnational level. The Bank has supported the country in mitigating the pandemic's effects through operations [5092/OC-BR](#), [5158/OC-BR](#), [5138/OC-BR](#), [5115/OC-BR](#), and [5130/OC-BR](#). The slowdown in growth and the government measures will widen the fiscal deficit. The primary deficit is expected to exceed 9.49% of GDP in 2020⁴ and be accompanied by a deepening of fiscal problems for subnational governments ([optional link 5](#)).
- 1.4 **Public security policy in Brazil.** In 2018, the federal government achieved a historic breakthrough in advancing the institutional development and governance of the security sector in Brazil when it approved the introduction of the Unified Public Security System (SUSP), which is intended to integrate and align the security

¹ Through Resolution DE-129/20. The second individual operation (loans 5237/OC-BR, 5238/OC-BR, 5239/OC-BR, 5240/OC-BR) was approved on 12 March 2021 through Resolution DE-19/21.

² The two other channels are: (i) federal, with the Federative Republic of Brazil as borrower and federal government entities involved in the SUSP as executing agencies; and (ii) subnational, with states, municípios, or the federal district as borrowers.

³ National Treasury (2021). Complete bibliography in [optional link 6](#).

⁴ National Treasury (2021).

policies of the country's federal, state, and municipal governments.⁵ In addition, the Ministry of Justice and Public Security (MJSP) approved the National Public Security and Social Defense Policy (PNSPDS) 2018-2028 and its accompanying plan, which bring a multisectoral approach that entails socially and situationally based preventive measures, modernization of policing practices, and access to justice and social reintegration.⁶ The MJSP also approved the Em Frente, Brasil Program (PEFB), aimed at reducing crime in the country's most violent municípios. The Pro-Segurança CCLIP is aligned with support for implementation of the SUSP, the PNSPDS, and the PEFB.

- 1.5 **Problem addressed and rationale.** The overall problem to be addressed by this individual operation is the high crime rates in Brazil. Since the 1980s, Brazil has witnessed a steady increase in violence, with the murder rate reaching 30.8 homicides per 100,000 inhabitants in 2017. The next two years brought a sharp (30%) decline in the murder rate,⁷ followed by a slight (5%) increase in 2020.⁸ Brazil has the second highest murder rate in South America,⁹ with the largest group of victims being young Afro-Brazilian men¹⁰ who live on the outskirts of urban centers. Violence against women and domestic violence have continued to climb. Between 2010 and 2018, the femicide rate in Brazil increased by 20%.¹¹ In addition, in 2018 Brazil recorded 263,067 reports of intentionally inflicted bodily harm in domestic violence cases in 2018 (over 700 per day),¹² and in 2015 the country had the world's fifth-highest rate of femicides, according to data from 83 World Health Organization countries analyzed by Mapa da Violência.¹³ The pandemic aggravated this situation. In the first half of 2020, there was a 1.9% increase in femicides and a 3.8% increase in the number of calls to the police to report domestic violence in comparison with the same period in 2019.¹⁴ At the same time, there was a 9.9% drop in in-person reports at police stations, pointing to a rise in underreporting of cases.¹⁵ In 2018, the rate of vehicle theft reached 278 vehicles per 100,000 inhabitants, close to 50% higher than the average of 196 for Organisation for Economic Co-operation and Development (OECD) countries.¹⁶ Robbery and theft were the biggest drivers of the growth in the annual victimization rate, which

⁵ See Law 13,675 of 11-06-2018 and its implementing decree, Decree 9,489 of 30-08-2018.

⁶ [PNDSPPDS](#).

⁷ Between 2017 and 2019, homicides fell from 59,128 to 41,635 (G1 and Brazilian Public Security Forum (FBSP), 2020; FBPS (2019).

⁸ G1 and FBSP (2021).

⁹ United Nations Office on Drugs and Crime (2019).

¹⁰ The share of homicide victims who are Afro-descendants rose from 59% in 2001 to 72% in 2011 (Marques-Garcia Ozemela et. al, 2019).

¹¹ FBSP (2019).

¹² FBSP (2019).

¹³ Waiselfisz, J. (2015).

¹⁴ FBSP (2020).

¹⁵ FBSP (2020).

¹⁶ Confederação Nacional das Seguradoras [National Association of Insurance Companies] (2019).

went from 15% in 2008 to 24% in 2017, and the perception of neighborhood insecurity, which went from 33% to 51% over the same period.¹⁷

- 1.6 **The high crime rates in Brazil stem from two types of causes.** The first has to do with the virtual absence of targeted policies in the sector (paragraph 1.7), despite the fact that crime risk factors can be traced to a small number of territories, individuals, and behaviors.¹⁸ Of the more than 5,700 municípios in Brazil, a mere 120 account for 50% of all homicides, and the 310 municípios with more than 100,000 inhabitants¹⁹ account for 61% of all homicides. Moreover, within these municípios, approximately 1% of street segments (the distance between two corners) account for 50% of homicides and between 2% and 5% of street segments account for 50% of robberies.²⁰ Three fourths of all homicide victims are 15 to 24 years old, and Afro-Brazilian youth are 23.5% more likely to be murdered than young people of other races, based on factors such as age, income, education, and place of residence.²¹ The high rates of violence against women are due to discriminatory behavior arising from high gender inequality rates and a patriarchal society and culture that condones this type of violence. Because of this, many such cases are not reported even today (domestic violence underreporting is estimated at approximately 48%).²² The second type of cause is related to a low-performing security and justice system, as evidenced by the high levels of impunity (only 20% of homicides have charges filed with the Public Prosecutor's Office, and only 6% are solved),²³ prison overcrowding (66%),²⁴ and high recidivism rates (70%).²⁵ These two types of causes are partly due to limited investment in public security programs, which in turn are poorly designed. This translates into few results-oriented programs, limited targeting, lack of change theory, and limited use of scientific evidence, leading to low effectiveness in addressing the causes of crime. This narrow scope²⁶ of public security programs, in terms of both investment and design, is the specific problem that this operation would address.
- 1.7 **Limited investment in public security programs, particularly in well-designed, results-oriented programs.** Per-capita public expenditure on public security in Brazil is approximately half of the average in OECD countries (US\$286 vs. US\$532), despite the fact that Brazil has a murder rate ten times higher than that of these

¹⁷ Latin American Public Opinion Project (2017).

¹⁸ The criminology literature points out that the phenomenon of crime is characterized by the occurrence of a very large number of cases clustered around a very small number of individuals, places, and behaviors, which means that those individuals, places, and behaviors account for most risk factors. See Martinez et al. (2017) and Eck et al. (2017).

¹⁹ These 310 municípios include 115 of the 120 that account for 50% of all homicides. The other five have fewer than 100,000 inhabitants. If we add together the two groups, we see that 315 municípios account for 61% of all homicides.

²⁰ Chainey et al. (2019); Jaitman and Ajzenman (2016).

²¹ Cerqueira and Coelho (2017).

²² Barroso (2019).

²³ Instituto Sou da Paz (2019).

²⁴ With more than 750,000 inmates and a rate of 307 inmates per 100,000 inhabitants, Brazil has the world's third-highest prison population.

²⁵ Department of Prisons (2020); Institute for Applied Economic Research (2015).

²⁶ Scope refers to the extent and coverage of the programs.

countries.²⁷ While annual public expenditure on public security at the three government levels is estimated at more than US\$20 billion,²⁸ only 5% is allocated to investment.²⁹ Approximately 80% of public expenditure on security and justice is executed by state governments, and it is mostly used to pay salaries. The few financial resources allocated to investment are channeled to low-quality programs,³⁰ i.e., poorly designed programs not particularly oriented toward results.³¹ In Brazil, as in most countries in the region, the predominant model is: (i) fragmented and focused on the police rather than integrated and balanced; (ii) diffuse rather than targeted; and (iii) based on intuition and opinions rather than on scientific evidence.³² According to a study of the quality of public expenditure on security in a Brazilian state, of the 54 crime prevention and control programs in execution, only seven were geographically targeted, only six targeted at-risk individuals, and only four were informed by scientific evidence.³³ The study revealed a limited use of tools that include racial discrimination as a risk factor for Afro-Brazilian youth and an approach to violence against women primarily focused on caring for victims, with little emphasis on prevention. A public expenditure analysis conducted by the Office of the President of Brazil confirmed this diagnostic assessment.³⁴

- 1.8 **The limited investment in well-designed, and therefore results-oriented, public security programs is due in part to the absence of a credit market specifically aimed at programs of this type.** An analysis of the lines of credit provided by development and commercial banks operating in Brazil reveals that there are no specialized lines to support the public security sector, with sector-specific technical guidelines and criteria such as those indicated in the preceding paragraph (paragraph 1.7). Instead, what little financing has been provided was offered under one-size-fits-all lines for the public sector.³⁵ The volume of loans issued in recent years to the security sector through these lines is very low. Between January 2018 and July 2020, the National Treasury Department authorized a total of approximately US\$70 billion in internal and external loan operations with state and municipal governments across all investment sectors, and only 0.1% (US\$70 million) was for security programs.³⁶ In the case of BNDES, just 4.6% of the R\$6.064 billion it lent to

²⁷ The comparative data are for 2015 (Serrano-Berthet, 2018).

²⁸ FBSP (2019).

²⁹ Gomes (2018).

³⁰ An analysis of expenditure by the National Public Security Fund between 2016 and 2017 shows that, after deducting the use of funds by the National Police Force, more than 90% of the financial resources were allocated toward the procurement of police equipment (police cruisers, vests, weapons, etc.) and information technology (computers, etc.) ([Instituto Sou da Paz, 2019](#)).

³¹ In order to be effective and well-designed, security programs should be: (i) integrated and balanced (combining crime prevention with crime control); (ii) targeted toward at-risk neighborhoods, individuals, and/or behaviors; and (iii) based on scientific evidence (Serrano-Berthet, 2018; Abt, 2019).

³² Kopittke (2020) for Brazil, Serrano-Berthet (2018) for the region.

³³ Serrano-Berthet (2018) and Pantoja (2018).

³⁴ Department of Strategic Affairs (2018).

³⁵ BNDES (2020).

³⁶ BNDES (2020).

subnational governments in the 2015-2020 period was for security programs.³⁷ The main reason for this limited loan supply is the limited technical expertise in security at national banks (compared to their expertise in more traditional sectors such as infrastructure). As a result, there is limited stimulus to encourage this type of demand, and few funding sources are channeled to this sector.

- 1.9 **In 2018, two changes in context encouraged the development of a line of credit aimed at public security.** Approval of the SUSP in late 2018 was the most significant of these changes, as it involved, among other measures, a recognition of the role played by municipal governments in public security and incorporation of that role into the institutional structure. Despite the fact that municipal governments considerably expanded their share of security-related expenditure,³⁸ the Federal Constitution's silence as to the role of municípios in the sector sowed doubts among municipal managers as to how vigorously to support this agenda. The approval of the SUSP Act solved this dilemma once and for all, since municípios became entities responsible for promoting public security under the law, which set out their main powers and responsibilities³⁹ as well as planning (municipal public security plan) and governance (municipal security council) mechanisms. Another significant change in context was the progress made in implementing an evidence-based public security model in Brazil. For example, the explicit recognition of this model in the PNDSPDS strengthens the interest in solutions supported by scientific evidence of their effectiveness.
- 1.10 **Against this backdrop, the Bank and BNDES implemented a pilot to structure security-related loans to municipal governments.** In 2019, a Bank and BNDES team offered technical support to eight municipal governments that had submitted financing requests to BNDES to improve the structuring of their programs and ensure they would be results-oriented and evidence-based. An IDB team of national and international experts, together with a team of BNDES managers, supported the structuring of the vertical logic for each loan and the selection of evidence-based solutions through visits and workshops. As a result, four of the eight municípios obtained approval of their loans from the BNDES board of directors, while another two municípios are currently in discussions toward a potential approval this year.⁴⁰ This experience shows the importance of a comprehensive approach (combining management, prevention, and law enforcement) and provides lessons learned for creating a menu of solutions.⁴¹ Additional workshops and meetings with state and

³⁷ This was for five loan operations for a total of R\$280 million (US\$56 million at an exchange rate of US\$1=R\$5). Four of these five operations (totaling US\$28 million) were carried out under a pilot program with the IDB (paragraph 1.10).

³⁸ When examining the distribution of public expenditure on public security between 2002 and 2017, we see that municipal government is the only level out of the three levels of government to post steady growth, from 1.6% of total expenditure to 5.7%, thus more than tripling its share. This upward trend should accelerate considerably following approval of the SUSP ([FBSP, 2019](#)).

³⁹ Mainly social prevention and community security.

⁴⁰ These projects financed comprehensive interventions that combined strengthening of municipal management with social prevention actions and strengthening of municipal police forces.

⁴¹ While most of the projects financed by BNDES are part of the PROSEG-Federativo menu of solutions, some will be excluded since they finance weapons purchases, which the Bank is barred from supporting (document GN-2535-1).

municipal governments have taken place since November 2019 with a view to assembling a list of potential subnational projects.

- 1.11 **Lessons learned from the pilot.** The pilot yielded a number of lessons learned, including the following: (i) there is latent demand⁴² from municipal governments for loan support in the security sector, and it can be encouraged through the specialized technical support offered by the Bank using high value added strategies (paragraph 1.13);⁴³ (ii) networking creates economies of scale;⁴⁴ and (iii) there are clear synergies between the Bank and BNDES in offering a scalable and high-quality line of credit.⁴⁵ In addition, the pilot found that the financing model can be specifically improved in three ways: (i) by including mandatory loan access criteria to better align the financed projects with the federal policy objectives in the SUSP; (ii) by directing the client to a proven menu of structured solutions that are eligible for financing, to foster the adoption of interventions based on evidence of impact; and (iii) by offering technical assistance and an environment of horizontal exchanges among the municípios during project preparation and implementation, to improve the quality of execution and the achievement of results. All these issues will be addressed by this operation.
- 1.12 **Demonstration effect and technical and operational advantages of the IDB-BNDES partnership.** Considering the results of the pilot and its lessons learned, scaling the pilot to a broader credit line is a way to provide the market with a broader demonstration effect of the advantages of projects of this type. The Bank and BNDES, the two main sources of public security financing in Brazil, can jointly shoulder the costs of unlocking the potential of this market. The provision of financial resources, coupled with the Bank's sector-specific technical knowledge of structured programs and BNDES's regional experience, means that the two institutions, with their complementary characteristics, can mitigate the risks associated with opening up the market. The Bank has vast experience in loans that foster well-designed interventions; channeled through BNDES's capillarity, this experience can be widely scaled at the subnational level. Considering that public security issues are present in various municípios in the country, it is important to have the ability to broadly offer structured credit to the sector in formats that are more accessible for these actors. In turn, BNDES has operational capacity and a track record of providing service nationwide with amounts tailored to subnational needs (a minimum of US\$2 million) and experience in engaging with clients to encourage financing requests. However, BNDES has not yet developed the sector-specific technical expertise needed to encourage the design and implementation of better-structured public security

⁴² A demand survey estimated that approximately 40% of all subnational government onlending to be financed by the loan has already been preidentified (includes retroactive financing, approved program requests, and projects in preparation).

⁴³ The pilot confirmed the value of technical assistance in firming up loans, as four municípios had loans approved by the end of the pilot and another two would resume discussions after the elections that took place last November. The SUSP's validation of the role of municipal governments also helped to awaken demand.

⁴⁴ The workshops with municípios helped to efficiently improve project quality, tapping into the knowledge of experts and the horizontal exchange of information among municípios.

⁴⁵ The Bank showed the value added of its technical expertise in citizen security, while BNDES showed the value of its expertise in managing development projects and its ability to dialogue and coordinate with municípios throughout the country.

interventions. In view of this, collaborative work has the potential of being an effective solution, combining the strengths of the two institutions to execute an innovative and relevant line of credit. In addition, given the gender and diversity issues in Brazil (paragraphs 1.5 through 1.7), execution of this credit line should give due attention to gender and diversity considerations, which the Bank and BNDES, as development banks, are prepared to do, thus setting an example for the market.

- 1.13 **Stimulating demand will be at the core of the operation's processes and will be achieved through three broad strategies:** (i) client loyalty development: leveraging BNDES's extensive experience in long-term client engagement strategies to help clients build a portfolio of sector loans and gradually add new areas, in this case security; (ii) technical support: using a virtual platform for automatic diagnostic assessment and formulation of security-related preliminary projects to enable municípios to measure their main security problems (through various benchmarks), have access to a menu of potential solutions based on scientific evidence for each identified problem, and obtain technical assistance from national and international experts to structure a loan, offering a value proposal that is attractive, differentiated, modern, and inclusive in terms of gender and diversity; and (iii) marketing: attracting potential clients to this platform and programmatic offerings through a set of marketing initiatives such as presentations for municipal and state security department associations, for the two municipal government associations, and at regional roadshows, using mass dissemination materials. The first strategy has the institutional support of BNDES, while the two others will be supported through an IDB technical cooperation operation currently in preparation.
- 1.14 **Empirical evidence.** The [evidence](#) shows that the following measures have a proven impact for preventing youth violence: (i) promoting risk assessment and targeting mechanisms; (ii) implementing primary prevention strategies such as training in positive parenting, socioemotional education, and school reintegration; and (iii) applying secondary prevention strategies such as the interruption of inter-gang violence. To reduce violence against women, the evidence leans toward preventive programs that change social and community norms, programs that work on positive masculinities, programs that promote the economic empowerment of women victims of violence, school-based programs to prevent sexual and inter-partner violence, and programs focused on transforming gender-unequal or violent partner relationships. In the area of preventive policing, the evidence highlights initiatives aimed at improving criminal analysis, problem-oriented policing, and intelligence-led policing. To prevent recidivism, the evidence encourages the introduction of strategies such as alternative sentencing, application of the risk-need-responsivity model (RNR), and cognitive-behavioral therapies.
- 1.15 **Alignment with the government strategy.** Since mid-2018, the Bank has been conducting a strategic dialogue with BNDES and the MJSP to strengthen their roles and improve the quantity and quality of public security investments at the subnational level in Brazil. In this context, a memorandum of understanding was signed by the three entities on 10 October 2019, establishing the possibilities of cooperation between the institutions (strengthening of the SUSP, development of a project portfolio, innovative practices, guidelines to prioritize investment projects, cofinancing, and experience exchanges). This operation is a clear result of that cooperation. While the two banks have a long history of partnerships, this will be the

first time in 20 years that the Bank will provide financing to BNDES for onlending to public entities.⁴⁶ This proposal is consistent with BNDES's strategic reorientation, aimed at enhancing the technical quality of its loans to the public sector while addressing the country's main challenges. BNDES's 2020-2022 Three-year Plan⁴⁷ identified 15 major outputs to be delivered to Brazilian society by 2022. One of these outputs is support for coordinated and integrated investments in security aimed at reducing crime and violence and making positive impacts on quality of life, competitiveness, and the business environment. The main commitment undertaken is to finance 20 projects aimed at improving the efficiency and intelligence of public security services in the country's most violent municípios.

- 1.16 **The Bank's experience in the sector, the region, and the country.** This operation will leverage the Bank's experience with security-related programs both in Brazil and in the region in the four program intervention areas. For example: (i) in the area of social prevention of violence, the Citizen Security and Justice Programme III in Jamaica (loan [3191/OC-JA](#)), which supports the delivery of nonviolent parenting services, remedial education, employability, and socioemotional support for youth from communities with high levels of violent crime, targeted by level of criminological risk, and the Opportunities and Rights Program of the State of Rio Grande do Sul (loan [3241/OC-BR](#)), which supports targeted strategies for at-risk youth; (ii) in the area of preventive policing, the Comprehensive Citizen Security Program in Uruguay (loan [3785/OC-UR](#)), which has supported the deployment of evidence-based policing modalities; (iii) in social reintegration, the Violence Prevention and Social Inclusion Program (loan [2526/OC-CR](#)), which supported comprehensive labor market reintegration strategies for adult offenders, and the Comprehensive Security Program in Panama (loan [1762/OC-PN](#)), which included the development and implementation of a reintegration model tailored to the specific needs of juvenile offenders; and (iv) in the area of management and governance, the Program to Strengthen the Strategic Management of Public Security in Chile (loan [4891/OC-CH](#)), which supports the development of a sector delivery unit responsible for planning, monitoring, and accountability in the citizen security sector. In addition, the operation will leverage the experience of federative programs in Brazil, such as the Fiscal Modernization Programs for subnational entities: the National Fiscal Administration Program for the Brazilian States (PNAFE) (loan [2980/OC-BR](#)), the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities (PNAFM III) (loan [3391/OC-BR](#)), and the Program for the Management and Integration of Tax Administrations in Brazil (PROFISCO II) ([CCLIP BR-X1039](#)); and the experience with development banks, such as the cumulative lessons learned from the CCLIP to support the private sector with BNDES (loans [2236/OC-BR](#) and [3866/OC-BR](#)) and the Public Infrastructure Management Investment Program for Municipal Efficiency (PROGEINFRA) with Banco do Brasil (loan [4691/OC-BR](#)).

⁴⁶ Operations with BNDES started in the 1960s. Cumulatively, there have been 22 contracts for a total of US\$8.75 billion, including three CCLIPs designed for the private sector (a total of US\$4.4 billion), which began execution in 2005.

⁴⁷ [BNDES](#).

- 1.17 **Lessons learned.** The above-described experience has yielded lessons learned in the area of decentralized public management and cooperation between federated entities, allowing the Bank to develop skills in managing executing agency networks. PROGEINFRA developed a platform to support the processing of municipal projects and capacity-building in the infrastructure area, which will serve as a reference for this operation. In addition, the following lessons learned have been incorporated into the menu of solutions: (i) implement evidence-based policies by selecting practices backed by scientific evidence obtained from robust systematic reviews; (ii) design interventions that target populations at medium or high risk of being affected by crime and violence, whether as first-time offenders, repeat offenders, or victims, using structured risk assessment tools; and (iii) design balanced crime reduction strategies by integrating social prevention actions with police prevention and control actions, and strengthening processes to enhance police legitimacy in the eyes of communities.
- 1.18 **Complementarity with other IDB Group operations.** This operation complements five citizen security operations in Brazil. In addition to the aforementioned Opportunities and Rights Program (loan [3241/OC-BR](#)), it complements the Paraná Seguro Program (loan [3137/OC-BR](#)) and Project Estado Presente: Citizen Security in Espírito Santo (loan [3279/OC-BR](#)) in terms of support for problem-based community policing strategies; and two operations under the Pro-Segurança CCLIP ([BR-O0011](#)): the Program to Expand and Modernize the Espírito Santo Penitentiary System (loan [5155/OC-BR](#)) in the use of cognitive-behavioral therapies to reduce recidivism; and the Ceará State Integrated Violence Prevention and Reduction Program (loan [5237/OC-BR](#)) in the use of community programs to prevent gender-based violence.
- 1.19 **Strategic alignment.** The operation is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is aligned with the following challenges: (i) Social Inclusion and Equality,⁴⁸ by supporting adult and juvenile offenders and at-risk youth through socioeducational, social integration, and employment support interventions; and (ii) Productivity and Innovation, by adopting digital transformation products and technologies for crime prevention and investigation (paragraph 1.22). In addition, the operation is aligned with the following crosscutting themes: (i) Gender Equity, by taking into account the specific needs of preventing violence against women as part of violence prevention; (ii) Diversity, by taking into account the specific needs of preventing homicides of young Afro-descendants; and (iii) Institutional Capacity and Rule of Law, by strengthening the management and digital technology capacities as well as the transparency and integrity of the beneficiary local and state governments.
- 1.20 Similarly, the project is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) in its reducing insecurity and violence component; and it is consistent with the guidelines and lines of action defined in the Citizen Security and Justice Sector Framework Document (document GN-2771-7), by supporting actions that improve security governance and management, prevention of juvenile violence and violence against women, police modernization,

⁴⁸ During childhood and adolescence, the vast majority of adult offenders and at-risk youth suffer social rights violations and have limited access to development opportunities, which this operation would partly remedy.

access to criminal justice services, and prison modernization. In addition, the operation is aligned with the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973) in its priority area of reducing social inequality and inequality of opportunity, in which a strategic objective is to enhance the effectiveness of citizen security services in the control and prevention of violent crimes. It is also aligned with the following crosscutting issues: gender and diversity, addressing the needs of young people (with an emphasis on young Afro-Brazilians and on women); and digital transformation and innovation (by promoting the use of artificial intelligence in the projects). Lastly, the operation is included in the Update of Annex III of the 2021 Operational Program Report (document GN-3034-2).

- 1.21 **Gender and diversity considerations.** Pursuant to the Operational Policy on Gender Equality in Development (Operational Policy OP-761, document GN-2531-10) and the Gender Action Plan for Operations 2020-2021 (document GN-2531-19), the menu of possible solutions includes interventions to prevent violence against women through changes in social norms, economic empowerment of women, and revictimization prevention and care services. As regards diversity, the menu includes projects to prevent violence among young Afro-Brazilians, focused on violence risk and protective factors.
- 1.22 **Technological innovation considerations.** The menu of solutions contains a wide array of technological innovations, such as: digital transformation actions to strengthen criminal analysis; the use of artificial intelligence in video cameras to prevent motor vehicle theft; the use of algorithms to plan hot spots policing or to prevent revictimization of victims of violence against women; and the use of teleconferencing for televisits, telehearings, tele-education, and telehealth in the prison system.
- 1.23 **Alignment and compliance with the Operational Guidelines for Program Design and Execution in the Area of Civic Coexistence and Public Safety (document GN-2535-1).** The program has been designed in accordance with these guidelines, since the solutions menu includes capacity-building activities in the areas of crime analysis, community policing, and data management (paragraph 1.18a of document GN-2535-1), and to support the social rehabilitation of juvenile offenders (paragraph 1.18c of document GN-2535-1). With respect to safeguards for Bank interventions in police matters, specific activities to strengthen the social control and internal affairs mechanisms required by the guidelines (paragraph 2.4a of document GN-2535-1) will be identified for each intervention in this area under the eligible projects. With regard to projects that envisage eligible activities relating to prisons, the signing of an agreement or consulting engagement acceptable to the Bank will be required to guarantee prison safeguards (overall treatment, use of force, and physical infrastructure) (paragraph 2.7a of document GN-2535-1).

B. Objectives, components, and cost

- 1.24 **Objective of the third individual operation under the CCLIP.** The general objective of this operation is to help reduce crime rates in the targeted communities

(state and municipal governments).⁴⁹ The specific objective is to expand the scope of crime prevention and reduction programs.⁵⁰

- 1.25 **Single component. Support for investment in results-oriented public security projects (US\$180 million).** This component will finance a long-term credit line to BNDES to finance public security improvement projects by eligible municipal and state governments. All projects will aim at achieving outcomes associated with one of the eight general problems (paragraph 1.24) and will be structured around evidence-based investments under the following four pillars: (i) public security management and governance, aimed at improving planning, management, and accountability mechanisms; (ii) violence prevention, aimed at addressing violence risk and protective factors; (iii) police modernization, promoting proactive, targeted, and preventive strategies; and (iv) access to justice and social reintegration, promoting recidivism prevention.⁵¹ Demand will be stimulated through loyalty-building actions by BNDES and through technical support and marketing actions to be financed through an IDB technical cooperation operation now in preparation (paragraph 1.13).
- 1.26 To support the structuring of projects, eligible subnational entities will be invited to use an online platform⁵² to create a diagnostic assessment of their situation, compare it with that of other subnational entities, and build a preliminary project from a menu of possible solutions ([optional link 4](#)). The platform offers 40 types of solutions (or macrosolutions) and 80 solution subtypes (or micro solutions) organized around the four pillars and eight problems discussed above. Development of the solutions menu adhered to the principles of good quality in citizen security expenditure: results-oriented, balanced between prevention and control, targeted, and evidence-based. To prepare the menu, a vertical logic matrix was built for each of the general problems addressed by the loan (including preventing violence among Afro-Brazilian youth and against women). Each general problem was broken down into specific problems, drivers, solution(s), and indicators.
- 1.27 **Eligibility criteria.** The eligibility criteria to be met by all subnational entities in order to have access to the subloans, as well as the items that may be financed and the minimum and maximum loan amounts, are described in detail in the [program Credit Regulations](#) and summarized below:

⁴⁹ This objective supports the public security management and governance sector of the CCLIP by promoting a new type of relationship between development banks and subnational governments in the area of public security.

⁵⁰ "Crime prevention and reduction projects" are understood to mean any project listed on the menu of projects eligible for financing under the operation's single component, which was developed around four sectoral pillars in turn related to eight identified sectoral problems: youth violence, violence against women, homicides, robberies, theft, recidivism, perceived insecurity, and limited effectiveness of security management.

⁵¹ Given the specific gender and diversity concerns described above (paragraphs 1.5 to 1.7), the menu of projects considers the allocation of resources specifically for targeted responses to these issues (see the [program Credit Regulations](#)).

⁵² The online platform is at the pilot stage of development, with Bank financing through technical cooperation resources (operation ATN/OC-18084-BR).

- a. **Subborrower eligibility criteria:** Brazil's 27 federative units (26 states plus the federal district) will be eligible,⁵³ along with municípios with more than 100,000 inhabitants or among those accounting for a majority of the country's homicides (despite having fewer than 100,000 inhabitants).⁵⁴ At present, 315 municípios meet these criteria: 310 with populations exceeding 100,000, and five that are among those that account for 50% of murders in Brazil.⁵⁵ These criteria seek to address the impact principle, since by focusing on 6% of the country's 5,570 municípios, the operation is potentially covering 61% of homicides in Brazil.⁵⁶ In addition, the subborrower will need to have sufficient borrowing capacity to enter into a loan operation with BNDES⁵⁷ and will be required to comply with the applicable legislation for loan operations with the public sector.
 - b. **Eligibility criteria for subprojects:** They must align with PNSPDS requirements (there must be an established state/municipal public security council, and a state/municipal public security plan must be in place or included as part of the loan); focus on any of PROSEG-Federativo's eight general problems; and choose their interventions from the menu of solutions under the four pillars cited above. Subloans may finance infrastructure, equipment, technology, or crime prevention or control programs. The minimum financing amount per eligible project will be US\$2 million, and the maximum amount will be US\$20 million. Approximately 20% of the interventions focus on preventing homicides of young Afro-Brazilians and preventing violence against women (see output indicator). Eligibility criteria related to environmental and social safeguards are also discussed in the [program Credit Regulations](#).
- 1.28 **Associated technical cooperation operation.** Operation [ATN/OC-18084-BR](#) has been approved for US\$250,000, with the objective of supporting efforts to improve citizen security policies and programs in Brazil and upgrade the design and oversight of loans and activities related to the Pro-Segurança CCLIP. In addition, the Bank is currently processing another technical cooperation operation designed specifically to support execution of the Federative Program for Smart Public Security (PROSEG-Federativo). Both technical cooperation projects will be used to finance demand stimulus activities (paragraph 1.13).
- 1.29 **Beneficiaries.** The direct beneficiaries of this program will be the residents of the communities in which the PROSEG-Federativo subloans are implemented. Considering the eligibility criteria, estimates indicate that approximately

⁵³ BNDES has the capacity to work nationwide, so there are no regional or subregional restrictions.

⁵⁴ Homicides are used as the main criterion since they are the problem with the greatest social impact and the only one for which there are data for all of the country's municípios.

⁵⁵ 120 municípios account for 50% of all homicides in Brazil, and 115 of them have more than 100,000 inhabitants.

⁵⁶ [Optional link 3](#) lists the population and number of homicides in the eligible municípios.

⁵⁷ BNDES has a proprietary structured credit risk assessment methodology that includes a risk management team separate from the operational units, retrospective and prospective risk assessment, and measures to discourage nonpayment, as well as a second, mandatory external assessment of borrowing capacity performed by the National Treasury Department at the time a loan is entered into. As a result of these processes, the public sector portfolio is the best-performing portfolio in the entire institution, with a very low default rate.

180 municipal governments and 12 state governments are potential candidates to obtain credit and that, of those, approximately 24 municipal governments will take out loans averaging US\$5 million and 4 state governments will take out loans averaging US\$15 million.

C. Key results indicators

- 1.30 **Expected impact and outcomes.** Achievement of the program's general development objective will be measured by the reduction in the rates of intentional lethal violent crimes, property crimes (robberies), domestic violence against children ages 0 to 4, and juvenile recidivism in the targeted communities. A preliminary baseline will be developed using the eight municípios and five states that are participating in efforts to work on the pipeline. The baseline will be updated when all projects have been selected, thus ensuring that it is representative. Achievement of the program's specific development objective will be measured through two types of indicators. On one hand, the program will use the following indicators: loan amount provided by BNDES to subnational governments for results-oriented public security projects,⁵⁸ and relative default rate of the relevant project portfolio. On the other hand, the program introduces an innovative matrix of "conditional" outcome indicators, i.e., indicators associated with each type of project envisaged in the solutions menu, to be used when these types of projects are part of a subloan. These indicators are indexes that seek to capture the aggregate change created by all subloans containing the same indicator (see [monitoring and evaluation plan](#)).
- 1.31 **Economic analysis.** The project's benefits stem from the savings in social and government costs resulting from a reduction in intentional lethal violent crimes, property crimes, juvenile recidivism, and domestic violence against children ages 0 to 4. The economic analysis of four model projects (one for each of the pillars described in paragraph 1.25) yields an average cost-benefit ratio of US\$1.75 per dollar invested, an internal rate of return of 21% (thus exceeding the 12% threshold established by the Bank), and a net present value of US\$4,281,295.84. The estimated results were shown to be sensitive to changes in parameters; thus, some of the model projects remain profitable in sensitivity scenarios that consider more conservative effects, while others do not ([optional link 1](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 **Source and use of funds.** This operation will be structured as an investment loan through the Global Credit Loan modality under the Flexible Financing Facility (document FN-655-1). It will have a total cost of US\$180,000,000, of which US\$150,000,000 (83.3% of the total) will be financed from the Bank's Ordinary Capital, and US\$30,000,000 (16.7% of the total) will be covered by the local contribution (Table 1):

⁵⁸ The criteria for confirming that subprojects have these characteristics will be explicitly stated in the menu of solutions.

Table 1. Estimated program costs (US\$)

Component	IDB	Local	Total
Single component. Support for investment in results-oriented public security programs.	150,000,000	30,000,000	180,000,000
Total	150,000,000	30,000,000	180,000,000

- 2.2 The commitment period for the proceeds (signing of subloans) will be four years, and the disbursement period will be five years (Table 2), based on the average time it takes to design and implement the project's proposed subloans and on the eligibility criteria and other conditions governing the use of the proceeds, as set forth in the [program Credit Regulations](#).

Table 2. Tentative disbursement schedule (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	15	40	40	40	15	150
Local	3	8	8	8	3	30
%	10.0	26.7	26.7	26.7	10.0	100

B. Environmental and social risks

- 2.3 In accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), PROSEG-Federativo has been classified as a B-13 program since it cannot be classified ex ante because it is a financial intermediation operation.
- 2.4 Environmental and social due diligence was conducted in compliance with Directive B.13: noncategorized operations (B.13), analyzing the environmental and social risk response system to assess and mitigate the operation's potential socioenvironmental impacts and risks and the executing agency's capacity to manage them.
- 2.5 The due diligence process found that this operation includes the development of a menu of small infrastructure solutions that would have moderate, short-term impacts that can be controlled and mitigated in the short and medium term, which are classified as Category "B." The risk of the interventions is considered moderate. It should be noted that projects that have Category "A" (significant) negative environmental or social impacts are excluded from financing under PROSEG-Federativo.
- 2.6 Similarly, the program will not finance projects that entail involuntary physical or economic resettlement; negative impact on indigenous groups; damage to cultural sites; negative impact on protected areas or Ramsar sites,⁵⁹ or the use of invasive species.
- 2.7 The project team analyzed the environmental and social risk response system for evaluating and mitigating project risks and found that the system is adequate for managing the impacts and risks associated with the operation. Accordingly, the borrower will ensure that this system is used in the analysis of each project to be financed, that projects comply with local legislation, and that projects have a permit

⁵⁹ A Ramsar site is a wetland designated as being of international importance under the Ramsar Convention.

issued by the respective environmental and social entity (see the [environmental and social management report](#)).

C. Other key issues and risks

- 2.8 **Economic and financial risk.** The following medium-to-high risk was identified: in the event of a deterioration in the fiscal position of states and municípios (due to the COVID-19 crisis or other factors), the resulting legal and/or fiscal constraints could make it impossible to provide subloans and could delay financial execution and lead to a failure to achieve the targets of the PROSEG-Federativo results matrix. This risk will be mitigated by: (i) continually monitoring the public entities' fiscal positions; (ii) developing a menu of solutions that can be tailored to the fiscal capacity of each state or município interested in obtaining a subloan; (iii) standardizing the subloan structuring process and offering technical support to streamline the diagnostic assessment and design processes; and (iv) conducting activities aimed at encouraging demand from entities with the capacity to take out subloans.
- 2.9 **Program sustainability.** The program will support the country's ongoing efforts to sustainably modernize security and justice through the CCLIP, leveraging these efforts in the medium and long term. As part of the evaluation process conducted by BNDES, each of the subloans will include a sustainability analysis of the investments to be financed. The Bank will continue to help strengthen BNDES's technical capacity in the area of citizen security through the technical cooperation operation designed for that purpose (paragraph 1.28).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** For this operation, BNDES will be the borrower and will also serve as the executing agency, while the Federative Republic of Brazil will be the guarantor of the financial obligations associated with the loan.⁶⁰
- 3.2 **Program execution and management mechanism.** BNDES will execute the program using its existing organizational structure, which will be entrusted with the tasks of ensuring proper use of the program's financial resources and providing the human and technical resources needed to execute the program in a timely fashion. The BNDES Public Management Department will be responsible for overall supervision, including financial and procurement planning, technical monitoring, and results evaluation. The results of the institutional capacity assessment indicate that

⁶⁰ See Resolution 17 issued by the Comissão de Financiamentos Externos [External Financing Committee] (COFIE) on 8 July 2020, authorizing preparation of the operation.

BNDES has the requisite capacity to manage the operation, including organizational structures, formal procedures, human resources, and adequate systems.⁶¹

- 3.3 **Strategic and interagency coordination.** BNDES will ensure that the subloans are aligned with the governing bodies and policies of the public security sector at the federal, state, and municipal levels through compliance with PNSPDS requirements as part of the subloan eligibility criteria (paragraph 1.27b). In addition, the International Affairs Department (SAIN) of the Ministry of Economy will participate in the semiannual portfolio reviews as the CCLIP's liaison agency, which will enable strategic monitoring of the program as a whole and effective coordination toward achievement of the development objectives of the CCLIP.
- 3.4 **Exceptions to Bank policies.** For this operation, as for previous loan operations with BNDES,⁶² the guarantee of the Federative Republic of Brazil will be limited to BNDES's financial obligations under the loan (including repayment of principal, interest payments, and other financial charges) and will not cover the performance obligations of BNDES or the local counterpart contribution. Accordingly, the Board of Executive Directors is asked to consider approval of a partial waiver of the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) – revised version (document GP-104-2). This request is justified by the absence of any provision under Brazilian legislation expressly allowing Brazil's federal government to guarantee performance obligations related to the execution of the program or the borrower's local contribution. BNDES is a financially solvent and autonomous entity and has broad operational and financial capacity with respect to the obligations it will undertake vis-à-vis the Bank.
- 3.5 **Financial situation of BNDES.** According to analyses conducted by Brazil's federal government, BNDES is in a position to enter into a loan operation with the Bank. BNDES's performance analysis for the third quarter of 2020 shows solid figures: (i) total operating revenue of US\$1.9 billion; and (ii) net income of US\$2.4 billion, as well as positive evaluations from rating agencies (Standard & Poor's: AAA (stable) in local currency and BB (stable) in foreign currency). Thus, BNDES has adequate financial capacity to meet its financial obligations to the Bank under the operation.
- 3.6 The [program Credit Regulations](#) will elaborate on the operating flows for the operation's execution and will include (i) eligibility criteria for beneficiaries; (ii) the BNDES credit lines eligible for the program and minimum and maximum loan amounts; (iii) a provision excluding projects that have a Category "A"

⁶¹ The institutional capacity assessment evaluated BNDES for 59 execution capacity conditions and found 47 strengths, 7 areas of opportunity, 3 weaknesses, and 2 conditions that do not apply. The weaknesses are due to specific issues: legal inability to hire temporary staff; directors' term in office; and use of an acquired financial system for accounting records. The areas of opportunity are primarily related to a lack of experience with the Bank's procurement and socioenvironmental management policies. In the risk identification process, it became evident that these weaknesses do not pose risks to the program, since: (i) BNDES will not have to hire additional professionals or firms to support program execution under PROSEG-Federativo; (ii) any potential changes of directors at BNDES will not affect the program; and (iii) the financial systems used by BNDES are robust and of high quality. With regard to the areas of opportunity, the BNDES team will be trained in the Bank's fiduciary policies so its staff can effectively monitor subborrowers' procurements. In addition, the socioenvironmental documents and guidelines of PROSEG-Federativo have been incorporated into the [program Credit Regulations](#).

⁶² Similar partial waivers were approved for loans [1608/OC-BR](#), [1860/OC-BR](#), [2023/OC-BR](#), [2236/OC-BR](#), [3866/OC-BR](#), [4672/OC-BR](#), and [5115/OC-BR](#).

socioenvironmental risk rating; (iv) the program's organizational structure; (v) program coordination and interagency coordination mechanisms; (vi) mechanisms for programming, monitoring, and evaluation of results; (vii) guidelines for financial, audit, and procurement processes; (viii) financial management rules; and (ix) a chapter on the program's socioenvironmental considerations. The strategic environmental and social assessment and the environmental and social management plan will be annexed to the program Credit Regulations.

- 3.7 **Special contractual condition precedent to the first disbursement of the loan proceeds:** The executing agency will submit to the Bank evidence of the entry into force of the [program Credit Regulations](#) under the terms agreed upon with the Bank to ensure effective program execution, enabling BNDES to adapt its internal processes to the program requirements.
- 3.8 **Procurement of works, goods, and services.** Since this is a loan to be provided to BNDES as a development finance intermediary for onlending to subnational entities (public subborrowers), any procurement to be carried out by such entities will abide by the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15). The [program Credit Regulations](#) will establish the provisions regarding the list of goods and/or services to be financed. The subloan contracts will be linked to those regulations and will include clauses on eligibility and prohibited practices, as defined by the above-mentioned policies.
- 3.9 **Retroactive financing and recognition of expenditures.** The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$30,000,000 (20% of the proposed loan amount) and may recognize, as a charge against the local contribution, up to US\$6,000,000 (20% of the estimated local contribution amount) in eligible expenditures incurred by BNDES in the form of disbursements for eligible subprojects prior to the date of approval of the loan by the Board of Executive Directors, provided that requirements substantially similar to those established in the loan contract have been met. Such expenses must have been incurred on or after the project profile approval date (25 November 2020) but may under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.
- 3.10 **Disbursements.** Disbursements may be made in the form of reimbursement of expenditures or advances of funds based on the program's actual liquidity needs for a period of no more than six months. Disbursements will be made using a special bank account in the name of the program for the exclusive use of loan proceeds in accordance with the Financial Management Guidelines for IDB-financed Projects (document OP-273-12).
- 3.11 **Ex post review.** Supporting documentation for disbursements and for expenditures incurred using the subloans received by the subnational entities will be subject to a periodic ex post review, whether the activities in question have been fully or partially financed by the Bank. These reviews will take the form of: (i) analyses of audited financial statements (conducted by an external audit firm); (ii) a periodic review of the disbursement requests under the program; and (iii) annual financial supervision

meetings. Whenever procurement is carried out using the country system, supervision will also be conducted through the country system.

- 3.12 **Audits.** BNDES will annually submit to the Bank a report containing the operation's audited financial statements. This report will be submitted within 120 days following the end of the fiscal year and will be audited by the Office of the Comptroller General or by a Bank-eligible external audit firm, preferably the external audit firm that audits BNDES, if eligible. The audited financial statements will be prepared in accordance with the terms of reference previously agreed upon with the Bank.

B. Summary of arrangements for monitoring results

- 3.13 **Monitoring by the executing agency.** Monitoring of program execution will be based on the physical-financial schedule and the results matrix. BNDES will prepare semiannual progress reports, to be submitted to the Bank for review within 60 days following the end of each six-month period, including the information needed to complete the progress monitoring report. To this end, it will use BNDES's management information system, which allows the institution to record and technically and financially monitor each subloan contract and compliance with the eligibility criteria.
- 3.14 For subloan supervision, the Bank developed an online platform that will enable both institutions to provide strategic support for subloans, individually and for the portfolio as a whole, in terms of physical and financial progress as well as results. This platform will also facilitate horizontal cooperation among subborrowers to share implementation challenges and search for joint solutions, and delivery of technical assistance and training at scale by both institution's teams. The online work will be supplemented through onsite visits by the BNDES department that is currently responsible for this task in other operations ([program Credit Regulations](#)).
- 3.15 **Program evaluation.** Program results will be evaluated through a midterm and a final evaluation, as described in detail in the [program Credit Regulations](#). The [monitoring and evaluation plan](#) provides an itemized list of the monitoring and evaluation indicators. The borrower will prepare and submit to the Bank a midterm evaluation report 180 days following the end of the second year of program execution or upon the disbursement of 50% of the loan proceeds, whichever occurs first. In addition, the borrower will submit a final evaluation to the Bank 180 days following the last disbursement of the loan proceeds, and this evaluation will be used as an input for the project completion report. The evaluation methodology will compare the outcome indicators in the results matrix before and after the intervention.
- 3.16 **Impact assessment.** With the aim of generating knowledge on the effectiveness of PROSEG-Federativo, an impact assessment will be performed using a generalized synthetic control to measure the impact of the program on the intentional lethal violent crime rate per 100,000 inhabitants and the property crime rate (robberies) per 100,000 inhabitants for states, and on the homicide rate per 100,000 inhabitants for municípios. The generalized method will make it possible to create a treatment unit consisting of the group of states, and also for the group of municípios, targeted by PROSEG-Federativo. The control unit for states will be the other states, while the

control unit for municípios will be the municípios that are among those that account for 50% of murders in Brazil but were not targeted by the program.

IV. ELIGIBILITY CRITERIA

- 4.1 **Operation eligibility criteria.** Under the Pro-Segurança CCLIP ([BR-O0011](#)) approved by the Board of Executive Directors through Resolution DE-129/20 (operation PR-4842), this is the first operation in the public security management and governance sector and also the first in the third resource allocation channel (development banks). As such, it meets the eligibility criteria defined in the policy documents applicable to CCLIPs (document GN-2246-13, section III) and the respective operational guidelines (document OP-1622-3, section III.B). With regard to this CCLIP: (i) the CCLIP's objectives are among the priorities set in the IDB Group's Country Strategy with Brazil (document GN-2973) (paragraph 1.20); and (ii) the CCLIP liaison entity, the SAIN, has the authority to coordinate and monitor the general work program of all sectors included in the CCLIP. For this individual loan operation: (i) the Institutional Capacity Assessment Platform was used to comprehensively update the institutional capacity analysis of the executing agency (BNDES) conducted for operation [5115/OC-BR](#), confirming that the executing agency has implementation capacity and identifying areas for improvement and potential risks (paragraph 3.2); (ii) the program objectives contribute to achieving the CCLIP's multisectoral objectives (paragraph 1.1) by strengthening the effectiveness and efficiency of citizen security expenditure (paragraph 1.24); (iii) the operation is covered in the first sector of the CCLIP (public security management and governance) (paragraph 1.1); and (vi) actions to be undertaken in the areas for improvement identified in the institutional capacity assessment are included (paragraph 3.2).

Development Effectiveness Matrix		
Summary		BR-L1547
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 -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	Enhance the effectiveness of citizen security services in the control and prevention of violent crimes
Country Program Results Matrix	GN-3034-2	The intervention is included in the 2021 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		8.6
3.1 Program Diagnosis		1.6
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		3.5
4. Ex ante Economic Analysis		7.5
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		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium Low
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ATN/OC-18084-BR. Objective: to support the improvement of citizen security policies and programs, the design and supervision of loans and activities related to the PROSEGURANCA CCLIP; and BR-T1473, in preparation. Objective: to contribute to the structuring and implementation of a program to support the modernization of public security and justice in states and municipalities in Brazil through BNDES.

The operation's general objective is to contribute to the reduction of criminality rates in supported state and municipal governments. To achieve this, the Project defines a specific objective that proposes to expand the scope of programs focusing on prevention and reduction of criminality. For that, the Program formulates a single component aimed at providing credit through a local development bank to a menu of eligible sectorial projects composed by structured solutions (i.e., with a robust theory of change, well focused, and based on evidence).

The project proposal diagnosis describes the lack of a specific and specialized credit market for the public security sector in Brazil as an issue that the country has been facing, which has generated a bottleneck for the scope of the investments made in the sector (both in terms of the amounts invested and the structural characteristics of the investments). This has contributed to the high levels of criminality in the country, in part due to the lack of specific actions to treat the issue through areas related to management and governance of public security, violence prevention, police modernization, and access to justice and social reintegration. Although the latest federal sector guidelines have created a promising context for opening specific credit lines for the sector, the proposal indicates that the first step in this direction requires a more driven action to generate a demonstration effect to the market, especially considering better structured projects. The proposed solution is aligned with the identified problem and prioritized issues, but given its innovative approach, no evidence is presented on the effectiveness of the instrument used in the intervention.

The results matrix is innovative since it includes indicators that are conditional to the solutions financed. These indicators are conditional and so they will be activated and presented in the closure results matrix (PCR) if and only if at least one solution related to the indicator and its specific problem is financed. Considering the characteristics of the Program, these conditional result indicators will allow evaluating the scope of the specific objective of the program, not only from the financial perspective but also from the sector optics that it supports. The results matrix presents a clear vertical logic, although given the nature of the operation some of the targets of the result indicators are not justified and the baselines (particularly of the conditional indicators) have yet to be defined.

The economic analysis quantifies economic benefits associated with the strategies of the single component of the program. The analysis is based on specific sectorial projects that are expected to be financed in each of the areas that the project plans to address. It primarily quantifies the benefits of preventing intentional deaths, reducing property loss costs, reducing domestic violence against children, and decreasing recidivism among youth. Due to the characteristics inherent to the configuration of the Program, the structure of the economic analysis is somewhat general and is based on strong assumptions. Some of the assumptions are not based on evidence. The analysis concludes that the Project has an internal rate of return of 21%, and this value is susceptible to the variation of the main parameters.

The Project's monitoring and evaluation plan presents a before-and-after strategy to perform the attribution analysis of the outcome indicators. Additionally, an impact evaluation using control synthetic to access the effectiveness of the use of this type of instrument (global credit) in sectoral contexts is proposed, what is relevant since there is an important knowledge gap about the subject.

RESULTS MATRIX

Project objective:	The specific objective of this operation is to expand the scope of crime prevention and reduction programs. Achievement of this objective will contribute to the general objective of helping to reduce crime rates in the targeted communities (state and municipal governments).
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GENERAL DEVELOPMENT OBJECTIVE

Indicator ¹	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: Help reduce crime rates in the targeted communities (state and municipal governments)							
Indicator 1: Annual average rate of intentional lethal violent crimes per 100,000 inhabitants in the targeted communities.	Rate	100	2020	2025	90	Ministry of Justice and Public Security (MJSP)	Base: rate of intentional lethal violent crimes/100,000 inhabitants. Intentional lethal violent crimes include homicide with intent, bodily injury leading to death, and robbery leading to death. The indicative baseline was calculated from the states ² contacted to create the IDB-BNDES pipeline, with a combined rate of 35.14 (2011-2018 averages). This indicator will encompass all states and municípios that commission operations related to the indicator. ³ Thus, the baseline will be updated throughout program execution. The expected impact on the rate by 2025 is a conservative 10% reduction associated with the proposed management-by-results interventions (model project) (Instituto Sou da Paz, 2017 and the Bank's Evidence-based Security and Justice Platform).

¹ Targets for general objective indicators will be recalculated when all subprojects actually commissioned are known.

² The states that have been preliminarily selected are Santa Catarina, Paraná, Alagoas, Pará, and Paraíba.

³ Operations related to this indicator are those aimed at solving the general problem of crimes against life based on the vertical logic underpinning the menu of solutions (see [program Credit Regulations](#)).

Indicator ¹	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
Indicator 2: Annual average rate of property crimes (robberies) per 100,000 inhabitants in the targeted communities.	Rate	100	2020	2025	84	MJSP	Base: rate of robberies/100,000 inhabitants. The indicative baseline was calculated based on the município of São Paulo, ⁴ with a rate of 1,151.7 (2010-2019 average). This indicator will encompass all states and municípios that commission operations related to the indicator. ⁵ Thus, the baseline will be updated throughout program execution. The expected impact on the rate by 2025 is a conservative 16% reduction associated with the proposed hot spots policing interventions (model project) (Braga, et al., 2012, 2014; Bulla, et al., 2012; Chainey et al, 2020).
Indicator 3: Average annual rate of domestic violence against children ages 0-4 per 100,000 inhabitants in the targeted communities.	Rate	100	2020	2025	91	Ministry of Health	Base: rate of domestic violence (ages 0-4)/100,000 inhabitants. Domestic violence includes manifestations of interpersonal violence (physical aggression, sexual abuse, emotional abuse, neglect, abandonment, mistreatment) actually carried out or threatened by one or more family members, parents, or other close persons in positions of authority. The indicative baseline was calculated from the five states contacted, ² with a combined rate of 222.6 (average in the five states for 2012-2018). This indicator will encompass all states and municípios that commission operations related to the indicator. ⁶ Thus, the baseline will be updated throughout program execution. The expected impact on the rate by 2025 is a conservative 9% reduction associated with the proposed parental/family program interventions (model project) (Vlahovicova et al., 2017).

⁴ Unlike other municípios identified as potential future subborrowers, the município of São Paulo has organized public data on robberies (Department of Public Security) and was therefore used as a baseline.

⁵ Operations related to this indicator are those aimed at solving the general problem of property crimes based on the vertical logic underpinning the menu of solutions (see [program Credit Regulations](#)).

⁶ Projects related to this indicator are those listed in the project menu involving the development of parenting practices.

Indicator ¹	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
Indicator 4: Average annual recidivism rate of juvenile offenders in the targeted communities.	Rate	100	2020	2025	85	State government administrative records	Base: juvenile recidivism rate. Juvenile recidivism refers to: detained juvenile offenders (year) who had previously gone through the socioeducational system. ⁷ This also includes individuals who are no longer juveniles but who have become repeat offenders up to two years after reaching adulthood. The baseline indicator was calculated from the five states contacted, ² with a combined rate of 23.9% (average in the five states in 2019) according to a study conducted by the Public Prosecutor's Office. ⁸ This indicator will encompass all states and municípios that commission operations related to the indicator. ⁹ Thus, the baseline will be updated throughout program execution. The expected impact on the rate by 2025 is a conservative 15% reduction associated with the proposed cognitive-behavioral therapy interventions (model project) (Lipsey et al., 2007; Darke. 2009; Andrews and Bonta, 2010).

⁷ In Brazil there is no standard definition for measuring the recidivism rate. The definitions used by each community that enters into a loan with this focus will be accepted, but the definition used for the baseline will have to be used throughout the monitoring process.

⁸ Since these data will be submitted by the operation's subborrowing states, external data from a study conducted by the Public Prosecutor's Office were used when preparing the loan proposal. Source: <https://www.conjur.com.br/dl/panorama-reentradas-sistema.pdf>.

⁹ Operations related to this indicator are those aimed at solving the general problem of the high rate of juvenile recidivism according to the vertical logic underpinning the menu of solutions (see [program Credit Regulations](#)).

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
Specific development objective 1: Expand the scope of crime prevention and reduction programs						
Indicator 1: Relative default rate – Default rate of the relevant portfolio ¹⁰ relative to the default rate of the entire BNDES portfolio over the full period of the operation.	Ratio	1	2020	1	BNDES	<p>Formula:</p> $TMR_t = \frac{\text{Default rate of the relevant portfolio}_t}{\text{Default rate of the entire BNDES portfolio}_t}$ <p>Where t is the time of measurement (baseline or monitoring). The baseline default rate of the entire BNDES portfolio is 0.425% (average default rate in 2019 and 2020). There is no way to obtain a baseline default rate for the relevant portfolio because the relevant portfolio projects are just now being started (and payments will be made later). Thus, the default rate has not yet been calculated. Accordingly, the baseline for the default rate in the relevant portfolio was assumed to be equal to the default rate in the entire BNDES portfolio, resulting in a 1:1 ratio. The established target is to maintain this ratio constant, i.e., for the quality of the relevant portfolio not to deteriorate more than the quality of the entire BNDES portfolio.</p>
Indicator 2: Total amount of financing (subloans) provided through the program's relevant portfolio. ¹⁰	US\$ millions	56	2020	255	BNDES	In view of the conditions of the final loans, the financing stock is expected to increase by 10% (average past counterpart amount in BNDES operations) in addition to the amount financed by PROSEG-Federativo. The baseline reflects the five well-structured security-related projects approved by BNDES between 2018 and 2020.

¹⁰ Relevant portfolio: well-designed public security operations. See the definition of a well-designed project in paragraph 1.7 of the loan document.

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
Conditional indicators ¹¹						
Pillar 1: Public security management and governance						
Indicator 1.1: Extent to which the proposed technique is used in the program's interventions.	Index	100*	2020	110**	BNDES	<p>Aggregates the indexes of use of the proposed technique in each relevant individual project commissioned. For this type of indicator, relevant projects are those fundamentally aimed at using a specific technique (technology, methodology, protocols, etc.). The indexes of use of the proposed technique for each individual project are calculated in terms of the focus unit that uses the technique (e.g., prisons, public servants, police forces, etc.).</p> <p>Index, baseline, and target calculation (<u>clarifications regarding the baseline and target are applicable for all conditional indicators</u>):</p> <p>Through a simple average, the index aggregates all individual indexes for the macro solutions related to that indicator. The individual indexes are calculated using the base variables for each individual project.</p> <p>* The baseline underpinning the index level of 100 will be based on, and updated using, the pre-intervention data for each individual project commissioned in relation to this indicator.</p> <p>** The established target may be upwardly revised throughout the operation based on projects actually commissioned and on evidence-backed justifications.</p> <p>See monitoring and evaluation plan.</p>

¹¹ For each subcomponent, the operation's final results matrix (project completion report matrix) will only include a given conditional indicator if one of the individual projects in the menu of projects related to that indicator is in fact commissioned. In other words, conditional indicators for projects that have not been commissioned will not be included in the operation's final results matrix. A list of links between projects and indicators is available in the [program Credit Regulations](#) and the [monitoring and evaluation plan](#).

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
Indicator 1.2: Staff certified in the core techniques of the interventions commissioned.	Index	100*	2020	110**		Aggregates the indexes of certified staff with respect to each relevant individual project that has been commissioned. For this type of indicator, relevant projects are those primarily focused on training staff at key institutions (for example, public servants, police officers, etc.). Thus, the indexes of certified staff for each individual project are calculated in terms of certified individuals (for example, public servants, police officers, etc.). See monitoring and evaluation plan .
Indicator 1.3: Scope of the interventions commissioned.	Index	100*	2020	110**		Aggregates the indexes on the extent to which the solution of each relevant individual project commissioned is adopted. It is similar to the beneficiary coverage index, but it has been labeled as an indicator of “scope” because it only considers individual projects that deliver outputs that affect aggregate groups of individuals rather than the individuals themselves, and thus measures outcomes at this focus level. Accordingly, the indexes of scope of each individual project’s solution are calculated in terms of the aggregate groups (for example, neighborhoods, communities, etc.). See monitoring and evaluation plan .
Pillar 2: Violence prevention						
Indicator 2.1: Extent to which the proposed technique is used in the interventions commissioned.	Index	100*	2020	110**	BNDES	See definition under Indicator 1.1. See monitoring and evaluation plan .
Indicator 2.2: Scope of the interventions commissioned.	Index	100*	2020	110**		See definition under Indicator 1.3. See monitoring and evaluation plan .
Indicator 2.3: Beneficiaries covered by the interventions commissioned.	Index	100*	2020	110**		Includes the beneficiary coverage indexes under each relevant individual project commissioned. It has been labeled as “coverage of beneficiaries” because it only considers individual projects that deliver outputs that directly affect beneficiaries and thus measures outcomes at this focus level. Accordingly, the coverage indexes for each individual project are calculated in terms of benefited

Indicator	Unit of measure	Baseline value	Baseline year	Project end	Means of verification	Comments
						individuals (for example, women, men, students, residents, etc.). See monitoring and evaluation plan .
Pillar 3: Police modernization						
Indicator 3.1: Extent to which the proposed technique is used in the interventions commissioned.	Index	100*	2020	110**	BNDES	See definition under Indicator 1.1. See monitoring and evaluation plan .
Indicator 3.2: Staff certified in the core techniques for the interventions commissioned.	Index	100*	2020	110**	BNDES	See definition under Indicator 1.2. See monitoring and evaluation plan .
Pillar 4: Access to justice and social reintegration						
Indicator 4.1: Beneficiaries covered by the interventions commissioned.	Index	100*	2020	110**	BNDES	See definition under Indicator 2.3. See monitoring and evaluation plan .
Indicator 4.2: Extent to which the proposed technique is used in the interventions commissioned.	Index	100*	2020	110**	BNDES	See definition under Indicator 1.1. See monitoring and evaluation plan .

OUTPUTS

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
SINGLE COMPONENT: Support for investment in results-oriented public security programs											
Output 1: IDB program loans issued through the relevant portfolio.	US\$ millions	0	2020	14	36	36	36	14	136	BNDES	Considers well-designed public security operations. ¹⁰
Output 2: IDB program loans issued through the relevant portfolio and providing for violence prevention solutions that use tools targeting Afro-Brazilian youth.(*)	US\$ millions	0	2020	2	6	6	6	2	22	BNDES	Pro-diversity indicator Considers public security operations with violence prevention solution(s) that use tools targeting Afro-Brazilian youth.
Output 3: IDB program loans issued through the relevant portfolio and providing for solutions to prevent violence against women.(*)	US\$ millions	0	2020	2	6	6	6	2	22	BNDES	Pro-gender indicator Considers public security operations with solution(s) for preventing violence against women.

(*) These indicators assume that the operation will invest a percentage of PROSEG-Federativo proceeds in gender and diversity interventions. Given the operation type and the fact that the specific projects to be financed are not known and it is therefore not possible to have results indicators with a baseline ex ante, these indicators have been selected to ensure that there is investment in gender and diversity issues.

Country: Brazil

Division: IFD/ICS

Operation No.: BR-L1547

Year: 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Brazilian Economic and Social Development Bank (BNDES)

Project name: Federative Program for Smart Public Security (PROSEG-Federativo). Third Individual Operation under the Pro-Segurança Conditional Credit Line for Investment Projects (CCLIP) (BR-O0011)

I. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

1. Use of the country system in the operation (any system or subsystem approved later could subsequently be applicable to this operation pursuant to the Bank's terms of validation).

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

2. Fiduciary execution mechanism

<input checked="" type="checkbox"/>	Particular features of fiduciary execution	<p>BNDES is a federal public financial institution with independent legal status under private law and its own assets. It reports to the Ministry of Economy, and its primary objective is to promote the country's economic and social development as the main instrument for implementing federal policy and fostering private investment.</p> <p>BNDES senior management is comprised of a Fiscal Board, consisting of three members elected by the General Assembly, and a board of directors, consisting of government representatives and independent members. As a financial institution, BNDES is subject to oversight by the Central Bank of Brazil and to the rules and resolutions of the National Monetary Council. Its accounts are inspected by the Federal Court of Accounts (TCU), an ancillary arm of the National Congress, and its processes are audited by the Office of the Comptroller General (CGU).</p>
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3. Fiduciary capacity

The executing agency's fiduciary capacity	The results of the institutional capacity assessment indicate that BNDES has the requisite capacity to manage the activities to be carried out as part of the operation, including organizational structures, formal procedures, human resources, and adequate systems.
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4. Fiduciary risks and risk response

No medium-high or high fiduciary risks requiring mitigation actions were identified.

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

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Exchange rate for rendering accounts as agreed upon with the executing agency: In the case of reimbursement requests and local counterpart justification, the exchange rate for converting expenses incurred in local currency into U.S. dollars will be the buying rate published by the central bank on the effective date of the transfer of the funds from BNDES to the municipal or state government subborrower. In the case of funds advances, the exchange rate for converting expenses incurred in local currency into U.S. dollars will be the first-in first-out exchange rate.

Audited financial statements: Will be submitted within 120 days following the end of the BNDES fiscal year, audited by the CGU or by a Bank-eligible independent audit firm, in accordance with the terms of reference previously agreed upon with the Bank.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<input checked="" type="checkbox"/>	Use of country systems	National regulations may be used for the procurement of works, goods, nonconsulting services, and consulting services, in line with the scope described in document GN-2662-4. Procurement plans for the subloans will indicate the procurement processes to be executed through the country system. In the event that the Board of Executive Directors expands the scope of its approval for use of the country system, it will be applicable to the operation.
<input checked="" type="checkbox"/>	Advance procurement and retroactive financing	The Bank may retroactively finance, as a charge against the loan proceeds, up to US\$30,000,000 (20% of the proposed loan amount) and may recognize, as a charge against the local contribution, up to US\$6,000,000 (20% of the estimated local contribution amount) in eligible expenditures incurred by BNDES in the form of disbursements for eligible subprojects prior to the date of approval of the loan by the Board of Executive Directors, provided that requirements substantially similar to those established in the loan contract have been met. Such expenses must have been incurred on or after the project profile approval date (25 November 2020) but may under no circumstances include expenditures incurred more than 18 months prior to the loan approval date.
<input checked="" type="checkbox"/>	Special procurement provisions applicable to the operation	Considering that the program is structured as a Global Credit Loan, through which funds are provided to BNDES for onlending to the direct beneficiary entities for use in procuring works, goods, and nonconsulting services, the provisions of document GN-2349-15, "Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank," paragraph 3.13, "Procurement in Loans to Financial Intermediaries," will apply. Procurement by public-sector beneficiaries will be carried out in accordance with the basic procurement principles, and procedures for this will be set out in the program Credit Regulations . The selection of consultants will be conducted in accordance with the provisions of document GN-2350-15 and the use of country systems, pursuant to the scope established in document GN-2662-4.
<input checked="" type="checkbox"/>	Records and files	Documents related to subloans financed by the operation will be kept at BNDES.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

<input checked="" type="checkbox"/>	Programming and budget	BNDES is a public enterprise with independent legal status and its own assets. As such, it does not receive budget funds from the federal government. BNDES abides by the national regulations established in the annual budget act, and its financial management systems are at an advanced level. Its planning and programming duties and responsibilities are documented in the Financial Planning and Programming Manual, as well as in its planning policies, which are approved by its board of directors.
<input checked="" type="checkbox"/>	Treasury and disbursement management	<p>The loan proceeds will be disbursed in U.S. dollars, primarily in the form of expense reimbursements. The disbursement requests will be submitted to the Bank in accordance with the requirements set out in the loan contract, the program Credit Regulations, and the Bank's Financial Management Guidelines.</p> <p>The Bank will reimburse BNDES for expenses incurred in eligible subloans. Specifically, these expenses refer to the transfer of BNDES funds to municipal and state governments in the context of eligible subloans for the amounts established in the Credit Regulations.</p> <p>If required, BNDES may request advances of funds by submitting a financial plan with estimates of eligible onlending for up to six months. To request subsequent disbursements, BNDES will be required to submit expense justifications equivalent to 80% of the amount previously advanced and not yet accounted for.</p> <p>The Bank will process the disbursements and deposit the funds in U.S. dollars in the bank account indicated by BNDES.</p> <p>The Bank's review and verification of disbursements will be ex post.</p>
<input checked="" type="checkbox"/>	Accounting, information systems, and reporting	<p>BNDES has a robust financial information system that backs up the accounting and financial records of its operations.</p> <p>Furthermore, BNDES complies with the rules issued by the central bank for banks in Brazil and applies Brazilian standards in the submittal of its financial statements. In addition, BNDES publishes for information purposes financial statements based on International Public Sector Accounting Standards (IPSAS).</p> <p>BNDES's debt recording and control operations and debt collection systems are indexed to various currencies, enabling entries in local currency and U.S. dollars. In this context, BNDES will record all transactions arising from the IDB loan in its own systems, using the exchange rate on the date of transfer of funds to the program's municipal and state government subborrowers.</p>
<input checked="" type="checkbox"/>	Internal control and internal audit	The internal audit unit, which reports directly to the BNDES board of directors, is responsible for the internal audit of the program. Its main objectives are to: (i) evaluate efficiency, effectiveness, and compliance with the internal and external rules governing corporate and information technology processes; and (ii) facilitate a dialogue between the BNDES system and the external oversight and supervision entities (TCU, CGU, and the central bank).
<input checked="" type="checkbox"/>	External control and financial reports	<p>BNDES's audited financial statements are posted regularly on its website, and there is therefore no need to request their submittal.</p> <p>BNDES will annually submit to the Bank the program's audited financial statements. These statements will be submitted within 120 days following the end of the fiscal year and will have been audited by the CGU or by a Bank-eligible independent audit firm.</p>
<input checked="" type="checkbox"/>	Financial supervision	The Bank will conduct its financial supervision of the program ex post through: (i) analyses of the audited financial statements; (ii) periodic review of program disbursement requests; and (iii) annual financial supervision meetings.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Brazil. Loan ____/OC-BR to Banco Nacional de Desenvolvimento Econômico e Social - BNDES. Federative Program for Smart Public Security (PROSEG-Federativo). Third Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) BR 00011 – PRO-SEGURANÇA

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 Banco Nacional de Desenvolvimento Econômico e Social - BNDES, 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 Federative Program for Smart Public Security (PROSEG-Federativo), which constitutes the third individual operation under the Conditional Credit Line for Investment Projects (CCLIP) BR-O0011 – PRO-SEGURANÇA, approved by Resolution DE-129/20 on 18 November 2020. Such financing will be for the amount of up to US\$150.000.000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2021)