

TC Document

I. Basic Information for TC

▪ Country/Region:	BRASIL
▪ TC Name:	Institutional strengthening of a regional development bank to promote social investment in the Southern Region
▪ TC Number:	BR-T1411
▪ Team Leader/Members:	Fazio, Maria Victoria (SCL/LMK) Team Leader; Bentata, Claire (SCL/LMK); Bettini Vicente, Juliana (CSD/RND); Dias Alvarenga Baptista, Dulce Benigna (SCL/LMK); Gaona, Tania Lucia (SCL/LMK); Garcia Valero, Andrea Carolina (SCL/LMK); Gouvea Gomes, Livia (SCL/LMK); Muhlstein, Ethel Rosa (SCL/LMK); Rocha, Marcia Gomes (SCL/SPH); Verissimo Da Silva, Carolina (LEG/SGO)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	BR-L1523.
▪ Date of TC Abstract authorization:	27 Aug 2019.
▪ Beneficiary:	Banco Regional de Desenvolvimento do Extremo Sul – BRDE
▪ Executing Agency and contact name:	Inter-American Development Bank, Social Sector, Labor Markets Division (SCL/LMK). Maria Victoria Fazio, mfazio@iadb.org
▪ Donors providing funding:	OC Strategic Development Program for Social Development(SOC)
▪ IDB Funding Requested:	US\$300,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	November 1, 2019
▪ Types of consultants:	Individual consultants
▪ Prepared by Unit:	SCL/LMK-Labor Markets
▪ Unit of Disbursement Responsibility:	SCL-Social Sector, through SCL/LMK
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Social inclusion and equality; Productivity and innovation; Institutional capacity and rule of law

II. Description of the Associated Loan/Guarantee

2.1 This TC will provide support to the Regional Bank of the South Extreme (BRDE in Portuguese) for the implementation of the “Promotion of Regional Development in the Southern Region Program” (BR-L1523). This global credit line was requested in the context of social and economic challenges faced by the southern region of Brazil, composed of the states of Paraná (PR), Santa Catarina (SC) and Rio Grande do Sul (RS). In order to boost social investment in the region and improve social and economic outcomes, the BRDE obtained a formal agreement with the Federal Government to request global credit line to support new investments in areas such as employment, tourism, health and water and sanitation.

2.2 The general objective of the credit line is to support social investments that can contribute to the regional development of municipalities in RS, PR and SC, which, otherwise, the BRDE would be unable to fund. The specific objectives of the credit line are to improve the following areas: (i) workforce development, (ii) access to labor

market information; (iii) the tourism sector, (iv) access and quality of health services, and (v) access and quality of water and sanitation services. Investments will also cover municipal institutional strengthening, including the elaboration of regional development plans. Beneficiaries of the program will be the municipalities located in the southern region, with a population of up to 500.000, as well as companies planning to make social investments that meet the eligibility criteria.

- 2.3 The program consists of a single component of US\$100.000.000 (with a US\$25.000.000 local counterpart) that will fund private and/or public projects which will be able to contribute to overcome regional challenges in the above-mentioned areas. This global credit loan is in its design phase and program execution is estimated to begin by July 2020.

III. Objectives and Justification of the TC

- 3.1 Brazil's southern region, composed of the states of Paraná (PR), Santa Catarina (SC) and Rio Grande do Sul (RS) represents 14% of the total population and contributes 17% of the country's GDP.¹ The region's connection with other countries from the Southern Cone has important economic value. However, the southern region could not escape the impacts of the economic crisis and the recession Brazil is facing since 2014. Measures on the quality of human capital, markets and innovation have deteriorated significantly, with Brazil ranking 72 out of 140 in 2018, whereas the same evaluation placed the country on rank 44 out of 144 in 2012/2013 (Global Competitiveness Index, 2018 and 2013). On a regional level, GDP in the three southern states decreased by 2.6% between 2016 and 2017 which in turn adversely impacted on public infrastructure and social spending.²
- 3.2 In addition to the macroeconomic environment, the provision of social services at the regional and municipal level has been hampered by budgetary constraints. Regional governments represent 44.1% of total public spending, which equals 24% of GDP; yet collected revenue at the regional level only amounts to 11% of GDP, making regions and municipalities heavily reliant on federal transfers³. Moreover, average municipal revenue fell by 2.8%⁴ and federal transfers to municipalities by 53% between 2014 and 2017. Credit for municipalities declined by 3.5% in 2016,⁵ and investment as percentage of total spending was reduced from 10.2% to 5% between 2014 and 2017. Regional investment in infrastructure significantly deteriorated over time, with financing falling from 5.42% of GDP on average in the 1970s to 2.06% in the 2000s⁶. The tendency of contracting private sector investment against bottlenecks in public spending⁷ is observable in a decline of private investment as a percentage of GDP by 22.14% between 2014 and 2016.⁸ These resulting deficiencies in investment at the

¹ IBGE, 2018.

² The federal budget for investments in public health decreased by 68% in the period of 2012 to 2018 (CFM, 2018).

³ Country Strategy Brazil 2019-2022 (IDB, 2019).

⁴ FNP (2019).

⁵ Banking credit as a percentage of GDP continued its downward trend, falling to 49.6% in 2016 and to 48.1% in 2017 (Credit Suisse, 2017).

⁶ The Brazilian Development Bank's (BNDES in Portuguese) portfolio represents 80% of the total financing of infrastructure in Brazil in the last decade. In contrast, private institutional investors allocate less than 1% of their assets to infrastructure, mainly due to the lack of adequate instruments that correspond to their risk profiles and deadline requirements (CDC, 2018).

⁷ Mussolini and Teles (2010).

⁸ IBGE – Tesoro Nacional e IPEA con elaboración del Centro de Estudios de Mercados de Capitales 2016.

regional and municipal levels figure as particular obstacles for improving the region's productivity and boosting social development and inclusion.

- 3.3 Challenges to increase productivity in Brazil have been linked to deficiencies in innovation and fiscal management, private sector development, infrastructure and labor market performance.⁹ Low productivity is especially challenging in a context of heterogeneous regional performance and puts a strain on efforts to reduce inequality via the improvement of productive regional capacities.¹⁰ Even though total spending in social investment areas crucial for productivity gains, such as education, health, and labor markets, is above the regional average, it does not translate to improvements of performance indicators in these areas. This, in turn, enhances existing inequalities and hampers increased social inclusion.¹¹ For the southern region to foster its productivity and do so in a socially inclusive way, increased quality social investment is thus needed. Against this backdrop, the region's development plan makes a strong case for boosting advancements in the areas of health services, tourism and labor markets.
- 3.4 Due to Brazil's decentralized nature, regional development banks are crucial enablers of financing for social and economic development, boosting productivity and closing inequality gaps at the regional and municipal level. For the Southern Region, the Regional Bank of the South Extreme (BRDE in Portuguese) is endowed with the federal mandate of providing lines of credit to the three southern states that contribute to the development of their prosperity.
- 3.5 The objective of the technical cooperation is to strengthen the capacity of the BRDE for working with municipalities and the private sector in new social investment projects to be financed within the BR-L1523 program in Brazil's southern region. The BRDE has a proven track record of municipal lending; yet social investment projects make up a minor part of the portfolio.¹² To ensure that projects respond to identified challenges and best practices in social investment and can be implemented sustainably, program guidelines on eligibility and design criteria for investments will be developed. Due to the innovative nature of social investment projects for the BRDE, the TC will also support the promotion and communication of the program region-wide for better outreach and uptake. The generated evidence on social investment demands as well as the developed guidelines for social investment financing will ultimately set the foundation for more efficient and effective BRDE lending in the mid to longer term.
- 3.6 The BRDE is seeking to provide a platform to expand the availability of funds to municipalities and the private sector for projects with a high social impact. Historically, the bank's portfolio in social investment has been limited, during 2018 this type of investment represented only 2% of the bank's total portfolio.¹³ The lack of operational experience translates to limited institutional capacity at the technical level. Against this backdrop, BRDE and IDB are preparing the design of the credit program to support the local socioeconomic development of the south region (BR-L1523), which will foster

⁹ Ambrozio et al. (2019).

¹⁰ Country Strategy Brazil 2019-2022 (IDB, 2019).

¹¹ Country Strategy Brazil 2019-2022 (IDB, 2019).

¹² Capacity development at the client level is necessary to ensure sustainability of credit operations under the program since only those municipalities that comply with enough capacity to undertake these social investments will be able to access the BRDE funds.

¹³ BRDE's portfolio in 2018 only dedicated 2% of total funds to investments in health, tourism and education.

investments in employment, tourism, health, water and sanitation and related social investments in the Southern region.

- 3.7 The program is innovative both for BRDE and the IDB. Under the current program setup, BRDE will use the funds from the IDB credit line to lend to municipalities and private sector stakeholders for projects that finance social and economic development and boost productivity at the regional and municipal level, and that could not take IDB loans by themselves. The present TC seeks to set up the stage for the BRDE to execute the respective credit lines in accordance with the program's operational standards and in compliance with IDB's procedures. The beneficiaries of this TC will be the staff and departments of the BRDE in the three states where it operates, as well as its clients at the municipal levels (both public and private) and the populations benefitting from the financed interventions. In order to make sure the BRDE is strengthened in the provision of technical assistance to the municipalities and private sector counterparts, the TC will focus on assessing the needs of both BRDE and municipalities in order to be able to work together in the identification, design and execution of loans once the Bank loan is implemented.
- 3.8 **Strategic Alignment.** The proposed TC is aligned with the IDB's Institutional Strategy 2010-2020 (AB-3008) as it seeks to improve institutional capacity by streamlining the processes through which BRDE provides credit lines for social infrastructure. The TC also seeks to contribute towards the institutions and rule of law indicator of the Corporate Results Framework (GN-2727-6) by helping BRDE institutionalize credit lines that abide by public investment laws in employment, health, and tourism. The TC is also in tune with the Strategic Ordinary Capital (SOC) objective (GN-2819-1) which looks to strengthen the technical, legal and financial capacity of BRDE staff. It is synchronized with the LMK Sector Framework (GN-2741-7) which promotes the collaboration in multisectoral teams (p.5.5.i) to develop interventions led by other sectors that can impact employability. Following this line, it also builds on two areas of the Brazil's Country Strategy (GN-2973) which seek to (1) improve the business climate and reduce the gaps in sustainable infrastructure to improve competitiveness, and (2) to reduce social inequality and enhance opportunities by increasing the efficiency of public policies.
- 3.9 **Complementarity with other initiatives.** The project aims to support the BR-L1523 program, currently in preparation, which is aligned with existing interventions in the areas of employment, tourism and health in Brazil and its municipalities (BR-L1412, BR-L1044). Moreover, experiences made on the execution scheme and eligibility criteria as well as social reform processes in Brazil have informed the project design (BR-L1429, BR-L1503 and BR-L1406). The program also complements municipal financing mechanisms aimed at improving fiscal modernization such as the *Programa de Modernização da Administração Tributária e da Gestão dos Setores Sociais Básicos (PMAT)* as well as the *Programa Nacional de apoio a Gestão Administrativa e Fiscal dos Municípios Brasileiros (PNAFM)* by improving capacity for the usage of social financing instruments in municipalities.

IV. Description of activities/components and budget

- 4.1 This TC will be financed with US\$300,000 in non-reimbursable resources from the Ordinary Capital Strategic Development Program for Social Development (SOC). The TC disbursement and execution period will be 24 months. The TC will include the following components:
- 4.2 **Component I – Diagnosis of social investment demand and program visibility.** Component 1 will finance the identification of social investment demand in the

Southern Region. It will thus lay the foundation for increased quality and expanded availability of social investment in the region. The diagnosis will be corroborated by local authorities (especially the Secretaries of Treasury, Tourism, Labor and Health) to validate information regarding uptake of the program funding and projects identified for initial funding.¹⁴ In parallel, this component will ensure dissemination of information about credit availability within the program both at public and private level within stakeholder events. In addition, the events will explain the exclusion, eligibility, ranking criteria to apply for funding and address inquiries of BRDE clients that may arise. This component will result in the diagnosis of social investment demand and program visibility.

- 4.3 **Component II – Institutional strengthening.** Component 2 will finance the elaboration of operational manuals and guidelines with criteria and instructions to be able to define, design, execute and monitor projects that are eligible to access resources from the BRDE following the program guideline. Legal norms to allocate resources and accountability procedures to oversee project execution in line with IDB guidelines will be defined. The component will also finance the training of the BRDE, state and municipal staff to use the operational manuals and financing instruments. Trainings will include the mechanism of financial execution, and procedures to deal with public-private projects. The trainings will prioritize less developed regions and stakeholders that may present complex projects. These instruments of institutional strengthening will support sustained quality and standardized execution of quality social investment and will thus contribute to fostering the region's productivity in a socially inclusive way. This component will result in the development of operational guidelines and manuals as well as in training of BRDE and municipal officials in accordance with these.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund (SOC)	Total Funding
Component 1 –Diagnosis of social investment demand	Analysis of social investment demand (emphasis on employment, health and tourism) will be carried out using administrative data	85,000	85,000
Component 2 - Institutional strengthening	Operational manuals and guidelines to access the program resources, design, supervise, and execute projects, and trainings conducted.	210,000	210,000
Incidentals		5,000	5,000
Total		300,000	300,000

¹⁴ The first filter to identify these projects will be through the analysis of the social portfolio of BRDE. The second filter will be analyzing regional plans (such as the Regional Councils of Development - COREDES – as in the case of Rio Grande do Sul).

V. Executing agency and execution structure

- 5.1 As requested by the Directorate of Planning and Finance of the BRDE via the official procedures approved by the Federal Republic of Brazil (Ofício Nº GADIR/DIREP/2018-238) the executing agency of this cooperation will be the Inter-American Development Bank (IDB) (see Annex 1). The IDB has developed a strong relationship with the BRDE during the preparation phase of the program (BR-L1523). Accordingly, BRDE has requested IDB's technical assistance to supplement BRDE's experience and technical capacity in designing credit lines of this nature. Here, the IDB can draw on lessons learned in both technical and operational aspects (see BH-L1037, BR-L1412, BR-L1044; as well as BR-L1323, BR-L1503, BR-L1406 and ME-L1017). The IDB has further accumulated a proven track record of projects similar to this TC and can ensure independent and transparent execution of the TC components. Design, coordination and supervision of this TC and its disbursement will be tasked to the IDB's Labor Market Division within the Social Sector (SCL/LMK), in accordance with the requirements established in the Bank's Policy for Technical Cooperation (GN-2470-2) and the Operational Guidelines for Technical Cooperation (GN-2629-1).
- 5.2 The IDB will maintain a close and constant dialogue with the BRDE, especially with the Secretariat of Planning and Finance. The Planning and Finance Secretariat is responsible for the direction of the priority areas of the BRDE's portfolio and activities described in this TC and will review the tools delivered by the consultants under this TC and provide feedback and technical inputs to the Terms of Reference and their completion when requested by the IDB. In any case, the IDB is ultimately responsible for the management of the services hired as to the discretion to select, hire, evaluate and pay consultants and will supervise the consultancy services contracted for the delivery of the components.
- 5.3 **Procurement.** The IDB will hire the services of individual consultants (see procurement plan in annexes) in accordance with all current IDB policies and procedures. More specially, the IDB will follow (a) AM-650 for Individual Consultants and (b) GN-2303-20 for logistics and other related services.

VI. Major issues

- 6.1 The risks in executing the TC and achieving its objectives could be unforeseen changes in the Directors of BRDE, as well as an insufficient dissemination of new technical capacities across functional levels within the BRDE structures and its prospective clients' demands. To mitigate such risks, the IDB will ensure that the design and monitoring of the preparation of the activities will be coordinated with the permanent technical staff of the BRDE to ensure continuity in the delivery of the products. Also, to improve the capacity of technical staff, the team will ensure BRDE personnel across different organizational levels and in different branches is properly trained by conducting an assessment of the acquired competences. Moreover, the

communication component of this TC will emphasize the BRDE's new competences in the field in order to sensitize the client side.

VII. Exceptions to Bank policy

7.1 None.

VIII. Environmental and Social Strategy

8.1 Classification C – Due to the nature of this project, it is estimated that this TC will not have a significant negative environmental or social impact. See [SPF](#) and [SSF](#).

Required Annexes:

[Request from the Client_90694.pdf](#)

[Results Matrix_44817.pdf](#)

[Terms of Reference_33065.pdf](#)

[Procurement Plan_17175.pdf](#)