

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

PROGRAM TO PROMOTE LOCAL DEVELOPMENT IN THE SOUTH (ProSul)

(BR-L1523)

LOAN PROPOSAL

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1.	Multiyear execution plan / Annual work plan
2.	Monitoring and evaluation plan
3.	Environmental and social management report (ESMR)
4.	Procurement plan

OPTIONAL LINKS	
1.	Economic analysis of the program
2.	Climate change
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ABBREVIATIONS

BCB	Central Bank of Brazil
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [Brazilian Development Bank]
BRDE	Banco Regional de Desenvolvimento do Extremo Sul
ESMR	Environmental and social management report
MSMEs	Micro, small, and medium-sized enterprises
GDP	Gross domestic product
PEU	Program execution unit
PPP	Public-private partnership

PROJECT SUMMARY
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Financial Terms and Conditions						
Borrower:			Flexible Financing Facility ^(a)			
Banco Regional de Desenvolvimento do Extremo Sul (BRDE)			Amortization period:		25 years	
Guarantor:			Disbursement period:		5 years	
Federative Republic of Brazil			Grace period:		5.5 years ^(b)	
Executing agency:			Interest rate:		LIBOR-based	
BRDE			Credit fee:		^(c)	
Source	Amount (US\$)	%	Inspection and supervision fee:		^(c)	
IDB (Ordinary Capital):	100,000,000	80	Weighted average life:		15.25 years	
Local:	25,000,000	20	Approval currency:		U.S. dollar	
Total:	125,000,000	100				
Project at a Glance						
Project objective/description: The general objective of the program is to support the resilience of Brazil's South Region at the local level in the states of Paraná, Rio Grande do Sul, and Santa Catarina amid the post-COVID-19 crisis. The specific objective is to boost the financial support for the country's south in the recovery phase from the COVID-19 health and economic crisis, in four critical areas: labor market, tourism, health, and sanitation.						
Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) approval and entry into force of the program Credit Regulations under the terms agreed upon with the Bank; (ii) evidence that a program execution unit (PEU) has been created under the terms agreed upon with the Bank; and (iii) updating of the operation's environmental and social management system as indicated in Annex B of the environmental and social management report (ESMR) (paragraph 3.5).						
Special contractual conditions of execution: The conditions are described in Annex B of the ESMR .						
Exceptions to Bank policies: A partial exception is proposed with respect to the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) – Revised version (document GP-104-2), to exempt the States of Paraná, Santa Catarina, and Rio Grande do Sul from guaranteeing performance and local counterpart obligations. The Federative Republic of Brazil will be the guarantor of the financial obligations of the borrower under the loan contract (paragraph 3.2).						
Strategic Alignment						
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>	IC	<input 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) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GD Gender Equality and Diversity; CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Socioeconomic context.** The South Region of Brazil, comprising the states of Paraná, Santa Catarina, and Rio Grande do Sul, accounts for 14% of the country's population and concentrates 17% of its gross domestic product (GDP) [\(1\)](#). Despite the region's high strategic value in trade and tourism, its three states experienced the recession that took hold in Brazil in 2014 and the slow recovery process that followed in more recent years, exhibiting productivity lags and high social inequality [\(2, 3, and 4\)](#). This has been compounded by the effects of the health crisis derived from the coronavirus (COVID-19) pandemic, which is heavily impacting this region and spawning growing health and economic challenges. The economic activity index published in the Regional Bulletin of the Central Bank of Brazil (BCB) in August 2020 shows a 6.8% contraction for the South Region, while the BCB's most recent Focus report forecasts a 5.46% drop in 2020 for the country as a whole [\(5\)](#). According to the Regional Bulletin, the scenario for Brazil's south is particularly complex: the impact on the labor market has been severe and uncertainty is still present in the economy as, unlike in other regions, here the pandemic continues to grow [\(6\)](#). As of 23 November 2020, Brazil has one of the world's most concerning set of indicators of the virus's progress, with a countrywide total of 6,087,608 cases (2,896 per 100,000 inhabitants), 884,069 of which (2,949 per 100,000 inhabitants) are in the South Region (where the projections point alarmingly upward, since this region is recording the highest rates of daily new cases and deaths, and cases are doubling by the week) [\(7\)](#).
- 1.2 **The economic scenario for the South Region amid the COVID-19 crisis is more challenging than for other regions.** According to the BCB, the reason for this is that the decline in the global economy had a negative impact on demand for products exported from the South Region, coupled with a combination of supply shocks (due to reduced production and distribution) and demand shocks (due to a decline in income and job losses) [\(8\)](#). The immediate manifestations of the pandemic are expected to remain in place for a lengthy period, even after the health emergency has passed. This will be the case particularly in economic sectors that have experienced a substantial decline in activity, such as tourism (-46% in terms of sector production) [\(9\)](#).
- 1.3 **COVID-19 intensified challenges and barriers already present in the region, primarily at the local level.** Brazil is a decentralized country, and decision-making on policy and service delivery takes place mainly in the municípios [\(10\)](#). In the past, municipal governance has been beset by a series of structural weaknesses, including lack of planning, fragmentation of strategies, and dependence on federal transfers. A decline in federal transfers in recent years, limited access to financing even before the onset of COVID-19, and a worsening situation in general revenue

collection have combined to increase fiscal pressure on municípios and are hampering local responsiveness to the pandemic^{1, 2, 3} [\(11\)](#), [\(12\)](#).

- 1.4 **Limitations on access to finance to sustainably steer the response and recovery at the local level.** The crisis has revealed the limitations in accessing finance at the local level, both for municipal governments and for the private sector. In the South Region, the domestic sources of financing have shrunk in recent years, while the supply of credit to mitigate COVID-19 has focused on channeling resources to address the immediate consequences of the crisis at the national level, with lesser emphasis on the local level and the subsequent recovery phase. For example, the Brazilian Development Bank (BNDES), Brazil's main provider of long-term funding, has been lowering its operating limits at a rapid pace, even before the pandemic. This has had a particularly sharp impact on the South Region, which has fewer available sources of financing than other areas of the country.⁴ Small and medium-sized municípios have no access to finance from Brazil's private-sector banks, which mean that public banks, including Caixa Econômica Federal and BNDES, are their only option. However, these institutions generally prioritize lending to larger municípios [\(13\)](#), [\(14\)](#). Credit for the three states of the South Region as a percentage of nationwide credit went from 31% between 2002 and 2013 to 21% between 2014 and 2019 [\(15\)](#). The balance in credit transactions fell 9% in real terms between December 2014 and August 2019. If only credit to businesses is considered, the decline increases to 24% [\(16\)](#). As a result of the general uncertainty surrounding COVID-19 and the rise in the perceived credit risk of businesses, it has become more difficult for micro, small, and medium-sized enterprises (MSMEs) to obtain access to credit at a time when they have a critical need of it in order to continue to operate without job cuts [\(17\)](#). Surveys on the effects of COVID-19 show that the crisis has reinforced the tendency in the South Region to provide better access to finance to large businesses [\(18\)](#), [\(19\)](#).
- 1.5 In short, even though municípios and businesses are the main drivers for guiding the recovery from COVID-19, gaps persist in their access to long-term financing. Furthermore, they are unable to gain access to credit from international agencies due to a lack of sovereign guarantees or the small scale of their projects. An innovative solution is needed to overcome the barriers to finance at the local level and support public and/or private investments in the South Region's municípios with a view to enable a recovery from the crisis.
- 1.6 **The social and economic impacts of COVID-19 will continue to emerge through various conduits for a lengthy period.** In the south of Brazil, businesses have suffered the impact of a break in the chain of payments. Moreover, they have a pressing need for credit to pay salaries and keep their employees' jobs in place. Until a vaccine is available, and as long as cases continue to rise, an economic reopening will require social distancing among

¹ Between 2014 and 2017, federal transfers to the South Region declined by 4.2%. Compara Brasil (2020).

² The 2020 municipal government budget was approved in December 2019, prior to the impact of COVID-19, subsequently leading to adjustments and reallocation of municipal resources to address the health crisis.

³ For example, in the second quarter, Paraná had a cumulative drop in tax revenue collection of R\$1 billion. [Paraná Portal](#).

⁴ Santa Catarina and Rio Grande do Sul do not receive any royalties from the federal government.

workers and with customers, forcing businesses to operate at a reduced scale for a lengthy period [\(20\)](#). In addition, the crisis has shown the importance of ensuring that the recovery is sustainable so as to avoid the potential socioeconomic impacts of progressive climate change on the key sectors of the economy [\(21\)](#), [\(22\)](#). The Economic Commission for Latin America and the Caribbean (ECLAC) identifies at least five conduits through which the impacts of the crisis will be passed on to the region's economy, and these are also apparent in the south of Brazil [\(23\)](#): (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms.

- 1.7 **The multiple transmission channels for the crisis pose a multisector challenge for the South Region.** The consequences of the crisis are primarily visible in four areas in which investment was already declining or stagnant due to financial support limitations before the crisis: (i) the labor market; (ii) the tourism sector; (iii) the health sector; and (iv) basic sanitation [\(24\)](#), [\(25\)](#), [\(26\)](#). In the labor market, significant effects on employment are already apparent, with close to 30% of formal workers at high risk of losing their jobs [\(27\)](#). In the tourism sector, there has been an almost complete shutdown of activities and job losses, and it is estimated that the effects of the crisis will linger for one to three years [\(28\)](#), [\(20\)](#). The health sector requires investments to reinforce equipment and infrastructure, both in the immediate mitigation phase and in the various reopening phases [\(20\)](#). Along these lines, the continuity of basic sanitation services is essential for mitigating the spread of the virus, especially in areas populated by vulnerable groups [\(29\)](#).
- 1.8 **Confronted with this multisector challenge in responding to COVID-19, the federal government, as well as Banco Regional de Desenvolvimento do Extremo Sul (BRDE) and the IDB, identified the need to support the South Region's resilience at the local level.**⁵ BRDE had (before the crisis) already identified a financing gap in its investment portfolio for projects in the labor market, tourism, health, and sanitation areas (paragraph 1.9). In view of the current context, channeling support for public and private projects (or public-private partnerships (PPPs)) in these areas through a regional public development bank is an efficient and direct means of promoting multisector recovery at the local level. The potential demand analyses undertaken show financing needs in this program's four priority areas (paragraphs 1.10-1.13). In the current emergency situation caused by COVID-19, the immediate demand received by BRDE is concentrated in requests for working capital from companies to sustain their operations. For the post-emergency phase, an analysis was conducted to identify potential demand and financing gaps by sector in order to project the future portfolio of eligible subprojects. The analysis was done on the basis of BRDE's historical demand, consultations with BRDE's three state agencies, consultations with public and private stakeholders, and validation will continue through the technical cooperation operation providing support for the operation (paragraph 1.19). [Optional link 6](#) shows specific examples of potential projects requested. By sector, requests are

⁵ The Brazilian government has introduced temporary measures in response to the COVID-19 emergency. In terms of health care, it streamlined the procurement of strategic supplies and expanded the domestic production of respirators. In addition, temporary measures were implemented to cover loss of income and allow the deferment of tax payments.

projected for subprojects as follows: labor market (an estimated value of US\$15 million); tourism (an estimated value of US\$25 million); health (an estimated value of US\$30 million); and sanitation (an estimated value of US\$30 million).

- 1.9 **BRDE.** BRDE is a public-sector development finance institution tasked with providing financing to foster prosperity and development in the South Region.⁶ Created in 1961 under an agreement signed by the States of Paraná, Santa Catarina, and Rio Grande do Sul, it is currently the second-largest development finance institution in the country, and the largest of those subnationally owned. It has an extensive portfolio of projects in all three states.⁷ BRDE is an eligible borrower under the Bank's Policy on Eligible Borrowers (Operational Policy OP-301). Its by-laws have been amended over time with BCB approval. BRDE is considered a public financial-sector enterprise and is part of the indirect administration of all three states, as evidenced by reports prepared by its legal advisors and delivered to the Bank. Its current portfolio finances primarily agricultural and infrastructure projects, mainly in the private sector. BRDE has developed a strategy to diversify its sources of funding to support the region following a substantial reduction in funding from BNDES, its main source of financial resources (from more than 95% to 70% in the last two years and with uncertain prospects in view of the COVID-19 crisis). In addition, it has received the federal government's endorsement to secure sovereign-guaranteed IDB financing.⁸ The four priority areas (labor market, tourism, health, and sanitation) targeted by this program account for a 5.9% share of BRDE's current portfolio;^{9, 10} for the moment, BRDE does not have a specific line for the recovery phase of the crisis in these areas.¹¹
- 1.10 **Labor market challenges posed by the crisis.** COVID-19 had immediate repercussions on economic activity and the labor market, and the recovery is expected to be slow following the largest decline in Brazil's GDP since records began to be kept in 1901 (30). The job losses are projected to hit the South Region particularly hard for certain sectors and occupations as well as vulnerable populations. In terms of formal employment, the risk of being laid off is estimated to be high for 28% of workers (31) and medium (31) for 23%. The job loss predictions hinge on the extent to which the labor market can adapt to the new health safety needs in the workplace, with expected changes in the production processes and in the demand for skills on the part of businesses (32). The biggest

⁶ [BRDE \(Carta Anual de Políticas Públicas e Governança Corporativa 2020\)](#), and [Anexo Resúmen BRDE \(contains financial and institutional information on BRDE\)](#). Analysis conducted through the Institutional Capacity Assessment Platform (IPAC) in the case of BRDE.

⁷ BRDE (2020 Annual Public Policy and Corporate Governance Report).

⁸ Cofix Resolution 03/132 of 28 September 2018, supplemented by Cofix resolution 0038 of 6 November 2020.

⁹ Current BRDE portfolio as of 2019. In addition, the portfolio includes technological innovation, trade, services, and industrial projects. The BRDE business model includes direct loans (more than 80%) and second-tier loans to credit cooperatives. Its current portfolio also includes PPP projects involving municípios and businesses.

¹⁰ The relevant portfolio was calculated in accordance with the criteria set out in the monitoring and evaluation plan ([required link 1](#)) and includes loans in the health, tourism, sanitation, and labor market areas.

¹¹ See complementarity with the emergency support in response to COVID-19 in paragraph 1.20.

job losses have occurred in the manufacturing and trade sectors, and in services such as tourism (31). For groups such as women, young people, ethnic minorities, and persons with disabilities, the crisis may exacerbate existing difficulties in accessing the labor market (33). The process of identifying potential demand for financing under this program has shown there is a need to invest in: restructuring of production by businesses to accommodate the new normal; training of the workforce in line with this restructuring; training in technical, digital, and biosecurity skills; support for entrepreneurs; municipal employment programs focused on comprehensive economic recovery plans (with potential in the municípios of Lajeado, Araguá do Sul, Barra Velha, Corupá, Guaramirim); and support for green jobs creation, especially in renewable energy and energy efficiency (for example, in the municípios of Eldorado do Sul, and Charqueadas).

- 1.11 **Tourism sector challenges posed by the crisis.** Tourism is among the sectors most heavily affected by COVID-19, and it faces an unprecedented crisis. In Brazil, economic losses on the order of US\$21.5 billion are projected for the sector between 2020 and 2021 (9), and more than 295,000 people had been laid off as of April (34). The South Region includes some of the country's most visited destinations by foreign tourists (35), and their arrival will be severely affected by the pandemic. It is projected that the revenue generated from domestic tourism, which represented 4.9% of the region's GDP (36), will be similarly affected. Surveys conducted in the state of Santa Catarina indicate that 75% of the sector's businesses experienced a complete halt in revenue from March to April 2020 and 66% of them had sufficient cash flow to continue to operate for at most the following two months (37). Similar figures have been recorded in Paraná, where close to half of businesses forecast a revenue drop of 76% to 100% in the second half of 2020 (38). In addition, the South Region is one of the most vulnerable to climate impacts, and environmental degradation, combined with a lack of adequate skills to preserve the ecosystems, threatens the tourism activities related to the area's natural capital, along with the corresponding jobs (39) (optional link 2). Identified lines of investment to boost resilience in the tourism sector include financing for restructuring of production and adaptation to health practices in the recovery phase, and development of business plans. In the medium term, revitalizing the sector will require developing sustainable infrastructure, including the public use of protected areas and/or the structuring of concession models for operating them, such as the Vale Germânico Tourism Development Plan or specific federal government plans for certain national parks in Rio Grande do Sul and Santa Catarina.
- 1.12 **Health care service challenges posed by the crisis.** As of November 2020, the three states of the South Region have the highest growth rates in COVID-19 cases and deaths. This has led to a tightening of social distancing measures. The country's Sistema Único de Saúde [Unified Health System] (SUS), which provides for universal, free, and comprehensive access to health care services, is consolidated in the South Region. There is broad primary health coverage¹² and hospital capacity is greater than in the rest of Brazil (the 3 states have an average of 14 intensive care unit (ICU) beds per 100,000 inhabitants, which is higher than

¹² In all, 72.6% of the population in Rio Grande do Sul, 89% in Santa Catarina, and 78% in Paraná is covered.

the national average).^{13, 14, 15} Private (or supplementary) health care plays an important role in this region, covering close to 25% of the population through medical cooperatives, philanthropic institutions, etc. Despite this relatively greater capacity, the rapid increase in COVID-19 cases has been putting heavy pressure on health services. For example, in Paraná, 72% of available ICU beds are occupied by patients with a confirmed COVID-19 diagnosis, while in Rio Grande do Sul the proportion is 74.4%.¹⁶ In this context, the most urgent demand identified through local consultations is to increase testing and close tracking of cases, strengthen health surveillance, improve the management of COVID-19 cases, procure personal protective equipment, and conduct prevention campaigns.

- 1.13 **Sanitation sector challenges posed by the crisis.** The South Region faces challenges in terms of access to, and quality of, basic sanitation services.¹⁷ According to 2017 data, 99.1% of the population in the region has access to drinking water. However, 38.9% of the population experiences intermittent supply interruptions, and there is a 36.5% level of water losses in the systems. The risks and challenges related to the water and sanitation services in the framework of COVID-19 are the following:¹⁸ (i) interruption or decline in water service quality (which is especially critical for seniors, hospitals, and low-income individuals); (ii) lack of access to water and sanitation in vulnerable areas (urban periphery neighborhoods); and (iii) the limited financial resources available to the water and sanitation utilities,¹⁹ diminishing their capacity for efficient and continuous delivery of services.²⁰ With respect to the management of urban solid waste, only 86% of such waste is adequately disposed of in the South Region.²¹ In this regard (in urban areas and especially in the urban periphery and rural areas), the risks and challenges are the following:²² (i) the rise in COVID-19-contaminated medical waste, which requires appropriate sanitary conditions, not always available, for management and disposal;²³ and (ii) the need to maintain adequate levels of municipal/domestic waste collection to avoid additional health problems. Consequently, the main demand in this regard will be to expand service delivery to vulnerable areas levels in line with national strategies, including financing for protective equipment and materials.

¹³ This includes both SUS and private beds. IBGE/Fiocruz 2020. Rio Grande do Sul has 1,893 beds, Santa Catarina has 1,210, and Paraná has 2,057.

¹⁴ It performs a preventive and health promotion role, in addition to organizing the flow of service and care.

¹⁵ Primary health care covers 72.6% of the population in Rio Grande do Sul, 89% of the population in Santa Catarina, and 78% of the population in Paraná.

¹⁶ Epidemiological Report. Department of Health of the State of Paraná (14 July 2020) and Department of Health of the State of Rio Grande do Sul.

¹⁷ In Brazil, basic sanitation includes drinking water, sewer, solid waste, and drainage services.

¹⁸ IDB, 2020. COVID-19 water and sanitation sector note. Unpublished.

¹⁹ Due to COVID-19, the country has temporarily suspended service payments for all users.

²⁰ As of April 2020, the Associação Brasileira das Empresas Estaduais de Saneamento [Association of Brazilian State Sanitation Utilities] (AESBE) had an average delinquency rate of approximately 19.89%.

²¹ IDB (2020). COVID-19 water and sanitation sector note. Unpublished.

²² IDB (2020). COVID-19 solid waste sector note. Unpublished.

²³ The situation is aggravated by the absence of regulations for this waste that are specifically adapted to the current emergency.

- 1.14 **Challenges in terms of gender and diversity gaps ([optional link 3](#)).** Aggregate data on credit access for Brazil show the existing gaps between men and women. According to a study conducted by the Serviço Brasileiro de Apoio às Micro e Pequenas Empresas [Brazilian Micro and Small Enterprise Support Service] (SEBRAE) ([40](#)), 69% of the total value of loans to MSMEs in Brazil²⁴ was received by men, and 31% by women. Gaps also exist in investment loans (72% vs. 28%), working capital loans (68% vs. 32%), and receivables financing (66% vs. 34%). In Brazil, women comprise 85% of the health sector's workforce, and 85% of caregivers for senior adults are women, exposing women to greater risk of COVID-19 infection ([41](#)). At the same time, gender-disaggregated informal employment is more prevalent for women, accounting for 42% of total women's employment ([42](#)), and women are disproportionately employed in nonremunerated domestic work. In terms of BRDE management, while this institution does not have a gender policy for its operations, it is committed to boosting its alignment with the gender agenda with support from this program. Recent evidence on the current crisis indicates that the gender-differentiated effects of COVID-19 could widen the existing gender gaps. Thus, it is important to take gender equality into account in the recovery phases ([43](#)).
- 1.15 **Problem to be addressed and rationale.** BRDE has requested the Bank's support in reducing the financing gap in projects to promote resilience in the South Region, following the impact of COVID-19, in four critical areas: labor market, tourism, health, and sanitation. The global credit modality allows the Bank to channel financial support through BRDE to fund local-level projects that would otherwise have no access to Bank support. Thus, BRDE will provide subloans to municípios and private businesses for projects in the four above-mentioned areas, which may include institutional strengthening components. To ensure that the investments address the identified challenges and best practices in these four areas, as well as in the crosscutting areas of gender, diversity, and climate change, the Bank has developed eligibility guidelines for the investments to be financed by BRDE under this new program.²⁵ These guidelines are included in the [program Credit Regulations](#), which will govern program implementation.
- 1.16 **Public development banks as partners, and expanding the scope of development for multisector recovery at the local level.** Public development banks, such as BRDE, are strategic partners for achieving the Bank's objectives in countries the size of Brazil, since they have the capacity to resolve coordination problems and provide an appropriate regional focus ([44](#)). A recent study analyzing the performance of national and regional development banks in China, Germany, Brazil, Mexico, Chile, Colombia, and Peru found that these institutions have on average been successful in their strategies to resolve failures in the finance market ([45](#)). Working with a public development bank such as BRDE allows the Bank to: (i) achieve greater capillarity in its operations, reaching municípios that have no direct access to loans from international institutions; (ii) transfer knowledge to BRDE to strengthen its capabilities in new investment areas, reinforcing its role as

²⁴ In the South Region, MSMEs account for 99% of all businesses and 65.7% of employed personnel (SEBRAE, 2015).

²⁵ Technical cooperation operation for operational support ATN/OC-17775-BR, which will directly support the institutional strengthening of BRDE and contribute to the additionality of this program.

a development bank; and (iii) support strengthening the management of social investment subprojects at the municipal level. The increase in capillarity is key, since the subnational governments perform a critical role in certain areas of social development, such as health [\(46\)](#). The literature on the effectiveness of public development banks indicates that providing loans to subnational governments could boost the effectiveness of the interventions [\(47\)](#) and facilitate financing for areas that are normally not covered by the private sector [\(48\)](#). This capillarity becomes critical in the context of a crisis.

1.17 **Sector actions in response to the effects of the crisis.** According to the sector-specific evidence in the four areas most heavily affected by COVID-19 in the South Region, best practices to promote resilience against the impacts of the crisis include:

- a. **Labor market:** (i) training and retraining programs to enable workers and businesses to acquire the skills required for the new normal, such as digital or biosecurity skills [\(32\)](#); (ii) job placement policies through public employment services [\(49\)](#), designed to reduce the period of unemployment [\(50\)](#) and improve access to formal jobs [\(51\)](#), especially for vulnerable population groups [\(50\)](#); and (iii) temporary employment policies, combined with training associated with the investment required to mitigate the health crisis and enable a reopening of the economy [\(49\)](#).
- b. **Tourism sector:** (i) measures to maintain jobs and provide liquidity to businesses; (ii) measures to stimulate and speed up the recovery, such as by bringing environmental sustainability and innovation into the sector; and (iii) long-term measures based on diversifying offerings and planning for the management of future crises, biosecurity, and preserving the ecosystems that attract tourists [\(52\)](#) [\(53\)](#).
- c. **Healthcare sector:** (i) coordination, planning, and monitoring; (ii) risk communication and community participation; (iii) surveillance, rapid response teams, and investigation of cases; (iv) entry points; (v) national laboratories; (vi) infection prevention and control; (vii) case management; and (viii) operational and logistical support.²⁶
- d. **Basic sanitation:** (i) investment in infrastructure, equipment, and critical components (pipes, tanks, pumps) to ensure access to basic sanitation, especially for the most vulnerable populations, including emergency plans and innovative solutions; and (ii) improved service management in the operating, financial, and customer service areas through the adoption of frontier technologies [\(54\)](#).

1.18 **Additionality.** The program presents an innovative, multisector model for contributing to the resilience of Brazil's South Region amid COVID-19 through a public development bank committed to promoting sustainable development at the local level.²⁷ It will serve as a multisector platform for providing financial support, under a granular approach, to municípios and businesses that would otherwise

²⁶ Actions recommended by the World Health Organization (WHO).

²⁷ BRDE has a clear corporate mandate in terms of the sustainability agenda to fulfill the United Nations Sustainable Development Goals.

lack efficient access to Bank assistance. This program is likely to have a large demonstration effect on other regions of Brazil confronting similar challenges. Specifically, the program's additionality consists in: (i) consolidating BRDE as a provider of credit in the social area and in support of resilience in response to the crisis; (ii) promoting loans to finance projects that reflect best practices in investment in the labor market, tourism, health, and sanitation sectors; (iii) strengthening BRDE's institutional and technical capacity to foster standards of technical dialogue, design, execution, and monitoring of multisector projects in the area of social investment, including gender, diversity, and climate change considerations; and (iv) reducing the transaction costs of Bank support at the municipal level by transferring knowledge and technical support to a public development bank committed to expanding its support for the South Region. The Bank has extensive experience in the design and implementation of projects in the work areas involved in this program, and is able to transfer this knowledge to BRDE in its operations.

- 1.19 **Strengthening of BRDE.** Through technical cooperation project for operational support ATN/OC-17775-BR, the Bank will support and lay the groundwork for the institutional, technical, and administrative strengthening of BRDE. This technical cooperation operation will help align the lines of credit with the Bank's operating standards and procedures. In addition, it will finance credit demand identification processes with a view to boosting the quality and volume of credit lines for investments of this type in the South Region. It will also finance a communication campaign to position BRDE as a lending agency in the areas targeted by the loan. Lastly, the technical cooperation operation will finance the drafting of operating guidelines and manuals that will contain criteria and instructions based on best practices for the identification, design, execution, and monitoring of BRDE-financed projects. This activity will include training for BRDE officers, prioritizing less developed areas in the South Region and highly complex projects.
- 1.20 **Complementarity with other projects and initiatives.** This program complements other investment financing initiatives promoted by the Bank in the labor market, tourism, health, and sanitation sectors in Brazil: (i) ATN/OC-15821-BR, which generates knowledge in implementing labor policies applicable to subprojects under this loan; (ii) ATN-OC-17125-BR, which will complement actions to improve services for job seekers; and (iii) 4761/OC-BR, which supports improvement of sanitation services in the state of Rio Grande do Sul. In addition, the Bank has been providing support to the country amid the COVID-19 emergency by preparing response operations: an operation for vulnerable populations and four operations to support the sustainability of the productive fabric. The operation for vulnerable populations is aimed at supporting the maintenance of minimum levels of income and employment in the COVID-19 period. The operations in support of the country's productive fabric are aimed at reducing the wide financing gap caused by the interruption of economic activity at MSMEs amid the health emergency and preventing the closure of businesses. In parallel, resources from loans in the Bank's portfolio in execution have been redirected by means of minor scope adjustments to help address the health emergency. Thus, US\$56 million has already been invested to procure medical equipment or upgrade hospitals. In response to the immediate impacts of COVID-19 and the high demand for working capital for MSMEs, BRDE created the

Recuperasul emergency line on 24 March 2020 and requested support through an emergency IDB operation that is being processed in parallel with this operation. The requested emergency operation focuses on channeling short-term support to avoid the closure of MSMEs due to the immediate effects of COVID-19 and to maintain the productive fabric. With a focus on the post-emergency period, this operation seeks to support the resilience of both municípios and enterprises with a multisector approach in four critical areas of intervention for the phases of recovery from the crisis.²⁸

- 1.21 In addition, this program complements other financing initiatives aimed at municípios in Brazil, such as the National Program to Support the Administrative and Fiscal Management of Brazilian Municipalities (PNAFM) (ATN/OC-3391-BR), which it supplements in the social dimension of municipal financing.
- 1.22 **Lessons learned.** The Bank has a long track record of operations with development banks in Brazil (4691/OC-BR, 3866/OC-BR, 4672/OC-BR) and in the region (2314/OC-CO, 2053/OC-ME, 2053/OC-ME-1, 2053/OC-ME-2, 2053/OC-ME-3, 2639/BL-PR, 2640/OC-PR). The main lessons learned from this experience have been taken into account in the design of this program. They include the following recommendations: (i) conduct a rigorous analysis of demand for the potential line of credit and of the appropriate selection of eligible projects; (ii) before the start of program execution, draft clear clauses in the [program Credit Regulations](#) and environmental and social safeguards, focusing on the operating rules agreed-upon with the executing agency, combined with a constant portfolio monitoring effort at the project level; and (iii) support strengthening the institutional capacity of the executing agency to make project management more efficient and provide technical and financial support, as part of the program, for evaluation and monitoring of the social and environmental aspects of the projects to be financed.
- 1.23 The preparation of this operation also takes into account the lessons learned from previous operations with Brazilian municípios. It follows the assessment of the Office of Evaluation and Oversight (OVE) regarding the PROCIDADES (BR-L1043) operations, which recommends that investments: (i) be part of a municipal development plan; (ii) have standard designs; and (iii) be requested when the subloan proposals are submitted. In addition, it takes into account the recommendations on planning, monitoring, and evaluation of programs 2107/OC-PR, 4854A/OC-PR, 4854B/OC-PR, and 2639/BL-PR and 2640/OC-PR regarding the program's areas of analysis, the need to coordinate evaluation activities with the executing agency from the start of execution, and the rigor required in estimating budgets for impact assessments.
- 1.24 At the sector-specific technical level, the program incorporates lessons learned from labor market, tourism, health, and sanitation operations: (i) labor market: operations 3787/OC-BH, 4314/OC-ME, 3547/OC-PE, and 3822/BL-BO, 3822/BL-BO-1, and 3822/BL-BO-2 provide lessons on training and job placement; (ii) tourism: operations 3682/OC-BR and BR-L1323 provide lessons on execution arrangements and eligibility criteria; (iii) health: operations 2586/OC-BR and 3262/OC-BR provide lessons on the importance of considering the configuration

²⁸ The design of the two programs was coordinated with the same PEU in BRDE (paragraph 1.30), distinguishing the various areas of intervention and the coordination mechanisms for each program.

of the regional health care networks for prioritizing projects, and the role of information technologies in health for boosting efficiency and ensuring better patient flow; and (iv) sanitation: operations 4761/OC-BR and 1725/OC-BR provide lessons on improving the capacity and resilience of water services and the operational management of water and sanitation systems in the south of Brazil. At the same time, the work of IDB Invest has yielded recommendations on fostering additionality in the work of public development banks with the private sector by incorporating technical support and a focus on development for private-sector investments.²⁹ Lastly, the program follows the recommendation of using the multisector work modality in the various phases of execution.

- 1.25 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and is strategically aligned with the development challenges of: (i) social inclusion and equality; and (ii) productivity and innovation, by financing investments in the labor market, health, basic sanitation, and tourism with a view to promoting resilience amid the COVID-19 crisis, including actions to mitigate job losses and foster a recovery at the local level. The program will provide crosscutting support for the challenges of:³⁰ (i) gender and diversity; and (ii) environmental sustainability and climate change, by integrating these areas into BRDE's eligibility criteria with a view to providing subloans that promote sustainable investments, and by preparing a gender initiatives manual for BRDE's internal and external operations.³¹ In addition, it is estimated that 10% of the loan proceeds will be invested in climate change mitigation and adaptation activities, in accordance with the joint [multilateral development bank](#) methodology for tracking climate change mitigation finance. Climate change-related activities are expected primarily in subprojects in the labor market and tourism areas. These resources will contribute to the IDB Group goal of increasing finance for climate change-related projects to 30% of all approvals by year-end 2020 ([optional link 2](#)).
- 1.26 Furthermore, the program is consistent with: (i) the Labor Sector Framework Document (document GN-2741-7) by promoting access to formal employment and training for employment and productivity; (ii) the Tourism Sector Framework Document (document GN-2779-7) by fostering tourism that benefits the local population and tourism governance that maximizes the benefits of tourism in the region; (iii) the Health and Nutrition Sector Framework Document (document GN-2735-7) in the objective of closing gaps and reducing inequities; (iv) the Water and Sanitation Sector Framework Document (document GN-2781-8) by promoting better access; and (v) the Support to SMEs and Financial Access/Supervision Sector Framework Document (document GN-2768-7) by channeling financing to small and medium-sized enterprises. It is also aligned, in crosscutting fashion, with the Gender and Diversity Sector Framework Document (document GN-2800-8) and the Climate Change Sector Framework Document (document GN-2835-8) by considering gender equality and environmental sustainability as eligibility criteria

²⁹ [IDB Group, 2018](#).

³⁰ The program's approach in the crosscutting areas is described in greater detail in [optional link 2](#) and [optional link 3](#).

³¹ The eligibility criteria also include considerations related to the priority area of technology and innovation by promoting the identification of subprojects associated with new technologies.

for BRDE loans, and because the projects to be financed will mainstream climate considerations. This alignment with sector frameworks will represent significant value added in the transfer of sectoral and operational knowledge to BRDE.

- 1.27 The program is consistent with the IDB Group Country Strategy with Brazil 2019-2022 (document GN-2973), specifically with: (i) the priority areas of “improving the business climate and narrowing gaps in infrastructure for enhanced competitiveness” through the strategic objectives of “narrowing infrastructure gaps,” by making improvements in human capital, health care services, the tourism sector, and the sanitation infrastructure; and of “promoting greater economic competitiveness,” by boosting socioeconomic resilience in the recovery phase from the COVID-19 health and economic crisis; (ii) the priority area of “building a more effective public sector” through the strategic objective of “perfecting the public investment system,” by promoting fiscal sustainability, since the program will strengthen BRDE’s capacity for social investment lending and for transferring capacity to the municípios; and (iii) the priority area of “reducing social inequality and inequality of opportunity by enhancing public policy efficiency” through the strategic objective of “improving management and the quality of spending and infrastructure in the health and education sectors,” by investments in the labor, health, sanitation, and tourism sectors that will promote the employability of the working-age population. The program is included in the Update of the Annex III of the 2020 Operational Program Report (document GN-2991-3).

B. Objectives, components, and cost

- 1.28 **Objective.** The general objective of the program is to support the resilience of Brazil’s South Region at the local level in the states of Paraná, Rio Grande do Sul, and Santa Catarina amid the post-COVID-19 crisis. The specific objective is to boost the financial support for the country’s south in the recovery phase from the COVID-19 health and economic crisis, in four critical areas: labor market, tourism, health, and sanitation.
- 1.29 **Single component. Support for resilience to COVID-19 in the labor market, tourism, health, and sanitation sectors (US\$125 million).** The resources of this component are aimed at contributing to the resilience of Brazil’s South Region amid the effects of COVID-19 in the sectors targeted by the program. The component envisages providing loans to municípios and eligible businesses through the traditional lines of financing used by BRDE, to support the implementation of public and private investment projects in the labor market, tourism, health, and sanitation sectors. The investments will satisfy eligibility criteria addressing the challenges identified in those four areas and the crosscutting areas of gender and diversity and climate change in the states of Paraná, Santa Catarina, and Rio Grande do Sul³² (paragraph 1.30). The program will finance projects that respond to the investment needs created by the health and economic crisis and foster recovery, as follows:
- a. In the **labor market**, it will finance projects including those to maintain employment and workers’ income; stimulate economic activity and employment recovery plans; train and retrain human capital in skills expected to be in demand in the post-pandemic context (both generally and specifically

³² The eligibility criteria are set out in the [program Credit Regulations](#).

in the tourism, health, and sanitation sectors); and support the restructuring of business plans, the creation of green jobs, entrepreneurship, job placement services, and vulnerable populations in obtaining employment.

- b. In the **tourism** sector, it will finance: projects including those aimed at managing the crisis and mitigating its effects, with a view to maintaining jobs and providing liquidity to businesses; delivery of stimuli and recovery acceleration through medium-term actions, such as by bringing sustainability and innovation into the sector; and projects that are aimed at preparing the sector for the future through a diversification of offerings, restructuring of production, and planning for the management of future crises, preservation of the ecosystem, and investment in low-emission and resilient tourism infrastructure, etc.
 - c. In the **health** sector, it will provide financing for project including: (i) in the short term, projects to reduce the impact of the virus' spread, such as by financing personal protective equipment, diagnostic tests, and procurement of intensive care equipment; and (ii) in the medium term, projects to support the use of digital health solutions, construction and upgrading of health services, strengthening of epidemiological and health surveillance services, expansion of regional health transportation, and procurement of laboratory and diagnostic supplies and equipment.
 - d. In the **basic sanitation** sector, in the short term it will finance water and sanitation projects for vulnerable populations affected by the economic crisis, and emergency plans to enable utilities to have sufficient capacity to provide services to their clients, especially isolated and vulnerable population groups. With regard to **urban solid waste**, it will finance measures including those to strengthen the operating capacity of urban solid waste operators, including collection systems and construction of areas for sustainable disposal of solid waste, and equipment and microloans for recyclers. In the medium term, it will finance measures including those to improve the efficiency and quality of **water and sanitation services**, including the use of innovative and sustainable technologies. In terms of sanitation, the component will finance an expansion of coverage in small cities. In terms of urban solid waste collection, it will finance projects that expand final disposal coverage, including the construction of final disposal stations and facilities that promote a circular economy.
 - e. Projects in all four sectors will include financing for items such as infrastructure and upgrades, equipment, training, and information systems, and the various subprojects may also include components for institutional strengthening of municípios. In addition, gender considerations will be incorporated into a BRDE gender initiatives manual as one of the program's outputs.
- 1.30 **Eligibility criteria.** The eligibility criteria, the items that may be financed, and the minimum and maximum amounts per subproject are described in detail in the [program Credit Regulations](#) and may be summarized as follows: (i) **municípios** are required to belong to the states of Paraná, Rio Grande do Sul, or Santa Catarina; have sufficient credit capacity to transact with BRDE in accordance with its credit methodology; and comply with the minimum and maximum financing limits established under the BRDE lending policies, under the terms of current legislation; and (ii) **businesses** are required to be registered in at least one of the

aforementioned states and qualify under the BRDE lending policies and risk rating system. In the case of both municípios and businesses, eligible projects need to fall into one of the four identified priority areas for supporting resilience in the South Region (labor market, tourism, health, and sanitation). The minimum amount of financing per eligible subproject will be US\$55,000, and the maximum amount will be US\$5 million. The eligibility criteria for environmental and social safeguards are also described in the [program Credit Regulations](#).

- 1.31 **Program beneficiaries.** The beneficiaries of the public and private investments will be residents of municípios in the three states comprising the South Region (which has a total of 29.9 million inhabitants).³³ This population group will benefit through projects aimed at promoting resilience amid the COVID-19 crisis, including actions to mitigate the loss of jobs, foster an economic recovery at the local level, and improve health care and basic sanitation. These benefits will be achieved through subloans to municípios and businesses (based on eligible investment proposals and subject to a minimum financing amount equal to 0.1% of BRDE's net assets according to the most recent semiannual balance sheet (approximately US\$55,000)),³⁴ as well as to public or private consortia or public-private partnerships (PPPs) eligible to obtain financing through BRDE.³⁵

C. Key results indicators

- 1.32 **Expected outcomes and indicators.** The program seeks to boost the resilience of Brazil's South Region amid the post-COVID-19 crisis in the municípios of the states of Paraná, Rio Grande do Sul, and Santa Catarina. Its expected impacts are: (i) an increase in the proportion of participants in job training courses who obtain certificates of completion; (ii) maintenance of full employment six months after the start of the program at businesses in the formal tourism sector supported by the program, with respect to total employment at those businesses prior to the crisis; (iii) reduction in the monthly average of confirmed COVID-19 cases per million inhabitants within one year following implementation of the program in the targeted municípios; and (iv) increase in the number of households with access to a sanitation network and proper final solid waste disposal in the cities targeted by the program. Its expected outcomes are: (i) increase in BRDE loan amounts for projects in the labor market, health, tourism, and sanitation sectors amid the COVID-19 crisis; (ii) in this context, maintenance of the relative delinquency rate of these loans with respect to BRDE's overall delinquency rate in 12 months; and (iii) maintenance of the relative delinquency rate of these loans with respect to BRDE's overall delinquency rate over the execution period. The indicators, baseline values, and annual targets are set out in Annex II, Results Matrix and in the [monitoring and evaluation plan](#).

³³ It is estimated that beneficiaries will include 661 businesses in the tourism sector, 1,000,000 people through health care, 10,000 people through job training, and 13,160 households through access to water and sanitation coverage.

³⁴ Amount in US dollars based on an exchange rate of US\$1/R\$5.36, in effect as of August 2020. The most recent BRDE net assets figure, as of June 2020, is equivalent R\$2,960,000,000.

³⁵ The provisions of the program Credit Regulations for subprojects with PPPs will be applicable for purposes of program execution, and there will be coordination with the PPP areas of VPC, IDB Invest, and IDB Lab to enlist their support in analyzing any proposals received by BRDE.

- 1.33 **Economic viability ([optional link 1](#))**. An economic analysis of the program was conducted using a cost-benefit methodology for each of the priority sectors (labor market, tourism, health, and sanitation), considering typical interventions in the Bank's operations portfolio with similar challenges and objectives. The cost-benefit analysis yields a net present value (NPV) of US\$55.7 million, a weighted average modified internal rate of return of 15.7%, and a benefit-cost ratio of 1.76 under the base scenario, which considers a discount rate of 12%, suggesting that the proposed set of actions is economically beneficial.³⁶ In addition, it is worth noting that the economic analyses of the individual interventions also yield a positive NPV. The economic rationale for the proposed actions considers: human capital preserved by means of policies designed to reduce mortality and morbidity (health sector intervention); job losses prevented (tourism sector intervention); human capital boosted by training workers (labor market intervention); and increase in property values as a result of expanded access to water and sanitation systems.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Source and use of the resources.** The total amount of the proposed program will be US\$125 million. Of this total, US\$100 million will be financed from the Ordinary Capital, with a local counterpart contribution of US\$25 million. Being a financial intermediation operation, the program will be structured as a global credit program. This enables the Bank to provide an investment loan to a public development bank for onlending to final beneficiaries such as municipios and businesses hampered by constraints in terms of local access to long-term credit. The commitment period will be four years and the disbursement period will be five years. The eligibility criteria and other terms governing the use of the resources are set out in the [program Credit Regulations](#).

Table 1. Estimated program costs (US\$ millions)³⁷

Components	IDB	Local	Total	%
Single component. Support for resilience to COVID-19 in the labor market, tourism, health, and sanitation sectors	100	25	125	100

Table 2. Disbursement schedule (US\$ millions)³⁸

Year 1	Year 2	Year 3	Year 4	Year 5	Total
20%	20%	20%	20%	20%	100%
20	20	20	20	20	100

³⁶ The relative weight of each sector was determined ex ante using the information provided by BRDE in the consultation letter on the identification of needs for the South Region.

³⁷ The program's administration, evaluation, and audit costs will be covered using BRDE administrative resources.

³⁸ Disbursements will be made in the form of reimbursement of expenditures and/or advances of funds.

B. Environmental and social risks

- 2.2 In accordance with directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this operation has been classified as FI-2 (i.e., as involving financial intermediation), thereby precluding ex ante classification of its socioenvironmental impacts. To ensure satisfactory environmental and social management of the operation, BRDE's current environmental and social management system will be updated based on the activities and projects to be financed. This update will include an exclusion list of nonfinanceable operations and set out the framework of the Bank's applicable socioenvironmental policies, with a view to ensuring that satisfactory measures are implemented to mitigate and control social and environmental impacts and risks. The update will be confirmed prior to the first disbursement. It is worth noting that the key adverse impacts associated with the projects to be financed will relate to public and private investment projects that promote mitigation of the COVID-19 crisis and post-pandemic recovery in the health, labor market, tourism and sanitation areas.

C. Fiduciary risks

- 2.3 An assessment of BRDE's institutional capacity concluded that this institution satisfies the conditions to perform fiduciary management activities for the loan operation. The fiduciary risk has therefore been determined to be low, primarily because BRDE has a long track record, a solid organizational structure, and adequate risk management.³⁹

D. Other risks and key issues

- 2.4 The following medium risks were identified, along with their respective mitigation measures: (i) macroeconomic and fiscal sustainability risks: if the dollar continues to appreciate against the real, it could give rise to a mismatch between the financing amount received and the transfer in reais to subborrowers, which would entail a substantial increase in the cost of the transaction for BRDE. To mitigate the risk of excessive appreciation of the dollar, the borrower can enter into a hedge transaction. (ii) Development risk: (a) the technical capacity of the municípios may not be sufficient for preparing the procurement documents and executing the projects financed by BRDE. To mitigate this risk, the Bank will promote a dialogue with the potential counterparts to enable them to become familiar with the line of credit and prepare a short list of consulting firms with proven technical capacity for project execution. (b) The demand for loans on the part of subborrowers may not be sufficient for implementing the line of credit. To mitigate this risk, technical cooperation operation ATN/OC-17775-BR will support continuous market intelligence efforts by BRDE to identify actual demand and a communication plan to position BRDE's loan offerings vis-à-vis the municípios and the private sector, in addition to supporting BRDE in identifying the potential market and conducting market intelligence (paragraph 1.19). (c) Loans for new and innovative projects may involve a delay in the contracting processes, since projects of this type have never before been carried out. To mitigate this risk, the technical cooperation operation will support BRDE in assessing the relevance of submitted projects and

³⁹ The institutional capacity assessment conducted through ICAP and its validation with BRDE show that BRDE has high fiduciary institutional capacity as well as experience in executing operations of this type with international institutions.

- in improving the specific capabilities of the BRDE team. (iii) Environmental and social sustainability: a rise in demand for projects with high socioenvironmental impact may result in delays in the execution of subprojects. To mitigate this risk, BRDE's social and environmental management system will be updated to include an exclusion list of nonfinanceable operations.
- 2.5 In addition, the Office of Institutional Integrity (OI) was asked to evaluate the mechanisms of the executing agency for managing the integrity risk in its subloans. In this regard, the program Credit Regulations provide guidelines to make certain that the subloan documents include the necessary references to ensure that the IDB Group has jurisdiction to investigate and penalize prohibited practices occurring with the use of Bank resources, as well as to ensure that parties penalized by the IDB Group are barred from receiving any loan proceeds. Accordingly, the program Credit Regulations contain a list of practices prohibited under IDB Group policies as applicable to the subloans.
- 2.6 **Sustainability.** With regard to the sustainability of the measures, the program is expected to help meet the South Region's challenges aggravated by COVID-19. In addition, the program provides an opportunity for this region to keep the support mechanisms in place for future emergencies. Furthermore, the demonstration effect of the interventions is expected to lead to the development of innovative multisector programs to boost the resilience of municípios and businesses in other regions of the country.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower, executing agency, and guarantor.** BRDE will be the borrower and executing agency of the program. The Federative Republic of Brazil will be the guarantor of the financial obligations under the loan.
- 3.2 **Exceptions to Bank policies.** A partial waiver is requested with respect to the Bank's Policy on Guarantees Required from the Borrower (Operational Policy OP-303) – Revised version (document GP-104-2), so as to exempt the States of Paraná, Santa Catarina, and Rio Grande do Sul from guaranteeing performance and local counterpart obligations as required of them under paragraph 3.4.2 (b) of the aforementioned policy. The rationale and basis for this partial exemption request is the financial soundness of [BRDE](#), as evidenced by its audited financial statements for the most recent fiscal years, and the robustness of its financial projections, which indicate that debt levels will stay within the limits required by its lenders. A financial analysis of BRDE shows that it is a solvent institution with sufficient financial capacity to contribute the local counterpart during the program execution period as well as to service its debt. With regard to guaranteeing performance, BRDE has legal capacity and is thus able to ensure long-term legal certainty in its transactions, and has administrative, financial, economic, and management autonomy from the states of Paraná, Santa Catarina, and Rio Grande do Sul. In addition, [BRDE](#) has experience in managing and using resources originating in domestic and external sources.
- 3.3 **Financial position of BRDE.** According to the information presented in its annual report, BRDE is authorized and supervised by the BCB and has an adequate

financial foundation for entering into a loan with the Bank. As of December 2019, its capital adequacy ratio (CAR) was 18.2% (in comparison to the regulatory minimum of 8.0%). BRDE's liquidity risk is limited, since its funding is fully covered by the credit products it offers. The liquidity ratio (current assets over short-term liabilities) is adequate (166% as of December 2019) and has remained stable in recent years. BRDE's portfolio has had moderate growth in the last year, largely due to the reduction in funds from BNDES and a decline in demand for loans in the context of a weak economy. The quality of the BRDE loan portfolio is solid, with a very low, below-average delinquency ratio of 1.1% of total loans as of December 2019 (in accordance with BCB regulations). Provisioning is also adequate, covering three times the nonperforming loans. In financial terms, BRDE had year-to-date earnings of R\$189.2 million as of October 2019, for an increase of 21.7% in real terms with respect to the prior year.⁴⁰ BRDE has been given stable and positive evaluations by rating agencies [\(54\)](#).

- 3.4 **Execution and administration.** A project execution unit (PEU) will be created within BRDE. The key staff within BRDE's organizational structure will act as a focal point. This staff will be responsible for program coordination, implementation (in multiple areas, such as analysis of the creditworthiness and capacity of municípios, assessment of the technical eligibility of subprojects, supervision of subprojects, procurement, financial management and social and environmental risk management, management tasks), supervision, and monitoring and evaluation. The head of the Superintendency of Planning and Sustainability (SUPLA) will be responsible for overall coordination in direct collaboration with the head of the New Business Department (DEPEN), who will play a technical coordination role, thus centralizing communications with the Bank. BRDE will be responsible for keeping an appropriate number of staff for successfully implementing the program, in accordance with the Bank's fiduciary (procurement and financial management) policies and procedures and socioenvironmental policies.⁴¹
- 3.5 **Special contractual conditions precedent to the first disbursement of the loan proceeds:** (i) approval and entry into force of the [program Credit Regulations](#) under the terms agreed upon with the Bank, so as to ensure effective execution; and (ii) evidence that the PEU has been created under the terms agreed upon with the Bank, in preparation for execution and coordination with the Bank.
- 3.6 **Procurement of works, goods, and services.** Since this loan will be issued to BRDE as a financial intermediary for development, and BRDE will in turn provide subloans to municípios (public subborrowers) and businesses (private subborrowers), procurement will be carried out by the subborrowers. All subloan contracts will include provisions regarding the list of goods and/or services to be financed (procurement plan) as well as clauses on eligibility and prohibited practices, as defined in the Bank's procurement policies (documents GN-2349-15 and GN-2350-15). Procurement of goods and nonconsulting services may not exceed the amounts provided for national processes. Accordingly, public

⁴⁰ [BRDE \(Carta Anual de Políticas Públicas e Governança Corporativa 2020\)](#).

⁴¹ BRDE has adopted this implementation arrangement in the past with other international agencies.

subborrowers may use the country system's methods, provided they are in compliance with the basic procurement principles established in the aforementioned policies.⁴² In addition, the provisions of Appendix 4 of these policies will be applicable to private subborrowers.

- 3.7 **Ex post review.** The supporting documents for disbursements and expenditures incurred in lending to municípios will be subject to periodic ex post review.
- 3.8 **Audit.** BRDE will deliver to the Bank annual financial statements for the program within 120 days after the close of each fiscal year, audited by a Bank-eligible external audit firm or by the Tribunal de Contas [Audit Office] of the State of Rio Grande do Sul. In the case of an external audit firm, audits will be funded with BRDE counterpart resources. The annual financial statements will be prepared in accordance with terms of reference previously agreed upon with the Bank.

B. Summary of arrangements for monitoring results

- 3.9 **Program monitoring and supervision.** The PEU will use the results matrix to monitor program execution. The PEU will prepare semiannual status reports, including the information required to complete the progress monitoring report (PMR). The PEU will have a management information system that will record all of the program's technical information, contracts, and expenditures, generating data for monitoring the program.
- 3.10 For program supervision, the Bank will monitor the operation through PEU reports and/or visits to the PEU and those responsible for similar activities in other BRDE operations with international agencies, in accordance with the operational details described in the [program Credit Regulations](#).
- 3.11 **Program evaluation.** The program envisages evaluating results by means of two (midterm and final) evaluations. The monitoring and evaluation indicators are itemized in [required link 1](#). The borrower will prepare and deliver to the Bank a midterm evaluation report 30 months following the date the loan contract is signed or upon the disbursement of 50% of the loan proceeds, whichever occurs first. In addition, the borrower will deliver to the Bank a final evaluation 90 days following the date of the last disbursement of the loan proceeds. The evaluation methodology will compare changes in the results matrix's results indicators before and after the intervention. The objective of the evaluation is to determine whether the program has achieved the expected results and the benefits projected at the time of approval.

⁴² Annex III.

Development Effectiveness Matrix		
Summary		BR-L1523
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change	
CRF Level 2 Indicators: IDB Group Contributions to Development Results		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2973	(i) Reduce infrastructure gaps and promote competitiveness (ii) Improve public investment system (iii) Improve public expenditure management and quality and infrastructure in the Health and Education sectors
Country Program Results Matrix	GN-2991-3	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	8.1	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	1.6	
3.3 Results Matrix Quality	4.0	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	1.5	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	2.5	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	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.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation 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		

Evaluability Note: The operation's general objective is to support the resilience of the Southern Region of Brazil facing the post-COVID-19 crisis at the local level in the states of Paraná, Rio Grande do Sul, and Santa Catarina. To achieve this, the proposal defines a specific goal that proposes to increase the financial support to the south of the country in the recovery phase of the health crisis and economic situation of COVID-19 in four critical areas: labor market, tourism, health, and sanitation.

The project proposal diagnosis describes with some evidences that due to low availability of credit, mainly related to the previous countrywide economic crisis and the country's decentralized structure of government, the South Region of Brazil has been facing a low volume of social investment at the local level, especially in the sectors of the labor market, tourism, health, and sanitation. On top of that, it presents that the current COVID-19 crisis has put more pressure on the local capacity of financing projects in these sectors, considering these areas are highly correlated to the crisis. The proposal argues that the region's post-crisis resilience requires support since the measures implemented to mitigate COVID-19 effects have focused on channeling resources for the immediate consequences at the national level, with less focus on the local level and on the recovery phase of the crisis. Finally, the proposal presents sectors specific challenges related to the health crisis, also including a gender analysis related to the Project structure. In this sense, the solution is aligned to the problem identified, although no evidence is presented about the proposed intervention's effectiveness.

The economic analysis quantifies some economic benefits for each of the four sectors, basing it on specific sector projects that are likely to be financed. It quantifies mainly the benefits of preserving human capital (health), the decrease of job losses (tourism), the increase in human capital (labor markets), and the expansion of access to water networks and sanitation (sanitation). The analysis concludes the Project has an internal rate of return of 15.7%, and the economic analyzes of each individual intervention also show a positive NPV.

The Project's monitoring and evaluation plan presents that the executing agency will provide most of the result indicators, based on the Program execution data. The evaluation plan does not include an impact evaluation, stating that a literature review and a before and after strategy will be used to access the Program's effectiveness at closure.

RESULTS MATRIX

Project objective	The specific objective of this operation will be to boost the financial support for the south of Brazil in the recovery phase from the COVID-19 health and economic crisis, in four critical areas: labor market, tourism, health, and sanitation. Achieving this objective will contribute to the general objective of supporting the resilience of the country's South Region at the local level in the states of Paraná, Rio Grande do Sul, and Santa Catarina amid the post-COVID-19 crisis.
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GENERAL DEVELOPMENT OBJECTIVE

Indicators ¹	Unit of measure	Baseline	Expected year of achievement	Target	Means of verification	Comments
General development objective: The general objective of the program is to support the resilience of the country's South Region at the local level in the states of Paraná, Rio Grande do Sul, and Santa Catarina amid the post-COVID-19 crisis.						
Indicator 1. Proportion of participants in job training courses (courses included in the program) who obtain certificates of completion	%	40	2025	50	Source: PRONATEC or similar training program in the South Region. BRDE monitoring report, with IDB team support.	The baseline is built on the basis of information from O'Connell et al. (2017) for PRONATEC.
Indicator 2. Total employment at businesses in the formal tourism sector supported by the project six months after the start of the program, as a proportion of the estimated change under the counterfactual (without-program) scenario.	%	100	2025	101	Source: BRDE (targeted tourism sector businesses) and RAIS. BRDE monitoring report, with IDB team support.	The cost-benefit analysis for the tourism sector has details of the counterfactual scenario. In this case, the denominator for the target is 3,817 jobs.

¹ Given the nature of the operation, to determine the baseline and target for the impact indicators under the general development objective, types of subprojects were considered that will be potentially requested, such as those listed in paragraph 1.29.

Indicators ¹	Unit of measure	Baseline	Expected year of achievement	Target	Means of verification	Comments
Indicator 3. Rate of change in COVID-19 cases under the program with respect to the counterfactual (without-program) scenario one year after the start of the program.	%	0	2025	-99	Source: Ministry of Health. BRDE monitoring report, with IDB team support.	The indicator will be calculated at EOP as: (Confirmed COVID-19 cases per million inhabitants in a period of one year from program implementation in the targeted municípios – estimate of cases per million inhabitants in one year under the counterfactual, without-treatment scenario) / Estimate of cases per million inhabitants in one year under the counterfactual, without-treatment scenario. The total number of cases under the counterfactual scenario without interventions (denominator) is 751,789.
Indicator 4. Rate of sanitation coverage in the major cities of the South Region.	%	78.4	2025	79.2	Source: Trata Brasil. BRDE monitoring report, with IDB team support.	The baseline and target were built taking into account the total population and estimated population without coverage in the following cities in the South Region: Porto Alegre; Caxias do Sul; Santa Maria; Canoas; Pelotas; Gravataí; Maringá; Cascavel; Ponta Grossa; Londrina; Curitiba; São José dos Pinhais; Florianópolis; Blumenau, and Joinville. Estimated baseline based on Trata Brasil (2020).

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators ²	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Specific development objective: Boost the financial support for the south of Brazil in the recovery phase from the COVID-19 health and economic crisis, in four critical areas: labor market, tourism, health, and sanitation										
Indicator 1: Total BRDE financing amount (contracts) provided through the relevant portfolio.	US\$	26,377,753	-	-	-	-	-	256,888,767	Source: BRDE loan portfolio. BRDE monitoring report.	Cumulative value of contracts in the relevant portfolio, including IDB resources plus the projected amounts for the next five years (based on past amounts). The benchmark amount is equivalent to the value of contracts signed in 2019. The exchange rate used as of July 2020 is: US\$1/R\$5.38.
Milestone 1: Total BRDE financing amount (contracts) provided through the relevant portfolio to the private sector.	US\$	26,377,753	-	-	-	-	-	-	Source: BRDE loan portfolio. BRDE monitoring report.	Amounts directly verifiable by BRDE.
Milestone 2: Total BRDE financing amount (contracts) provided through the relevant portfolio for the labor market.	US\$	7,080,387	-	-	-	-	-	-		
Milestone 3: Total BRDE financing amount (contracts) provided through the relevant portfolio for the tourism sector.	US\$	18,270,288	-	-	-	-	-	-		

²

Due to the crisis, the baselines and targets will be updated during execution, based on 2020 BRDE data.

Indicators ²	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Milestone 4: Total BRDE financing amount (contracts) provided through the relevant portfolio for the water and sanitation sector.	US\$	777,077	-	-	-	-	-	-		
Milestone 5: Total BRDE financing amount (contracts) provided through the relevant portfolio for health.	US\$	250,000	-	-	-	-	-	-	Idem	Idem
Milestone 6: Total financing amount for BRDE-funded projects that satisfy the environmental sustainability criteria in accordance with optional link 4. ³	US\$	0	-	-	-	-	-	-	Idem	Idem
Indicator 2.⁴ Relative delinquency rate in the relevant portfolio 12 months after the start of the program, with respect to the delinquency rate in BRDE's total portfolio.	%	1.945%	-	-	-	-	-	1.945%	Source: BRDE loan portfolio. BRDE monitoring report.	The indicator includes the relative delinquency in the relevant portfolio. Delinquency rate in the relevant portfolio = 2.14%. Delinquency rate in BRDE's total portfolio = 1.1%.

³ It is estimated that 10% of the operation's resources will be invested in climate change mitigation and adaptation activities.

⁴ This baseline was estimated for the available 2019 data, which are more favorable than the predictions for the coming years amid the COVID-19 crisis.

Indicators ²	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
										The delinquency rate in the relevant portfolio is equivalent to 6% of the total delinquent amount in BRDE's total portfolio in 2019.
Indicator 3. Relative delinquency rate in the relevant portfolio, with respect to the delinquency rate in BRDE's total portfolio, over the total program period.	%	1.945%	-	-	-	-	-	1.945%	Idem	Delinquency rate in the relevant portfolio = 2.14%. Delinquency rate in BRDE's total portfolio = 1.1%.

OUTPUTS

Indicators	Unit of measure	Base-line	Year 1	Year 2	Year 3	Year 4	Year 5	Project end	Means of verification	Comments
Single component: Support for resilience to COVID-19 in the labor market, tourism, health, and sanitation sectors.										
Output 1: Amount provided by the program through the relevant portfolio.	US\$ millions	0	24,995	24,995	24,995	24,995	24,995	124,975	Source: BRDE loan portfolio. BRDE monitoring report.	
Output 2: BRDE gender initiatives manual implemented.	Number	0	0	0	1	0	0	1	Source: BRDE. BRDE monitoring report.	

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Brazil
Project number:	BR-L1523
Name:	Program to Promote Local Development in the South (PROSUL)
Executing agency:	Banco Regional de Desenvolvimento do Extremo Sul (BRDE)
Prepared by:	Mario Castaneda and David Salazar (FMP/CBR)

I. EXECUTIVE SUMMARY

- 1.1 These fiduciary arrangements were prepared on the basis of (i) the country's fiduciary context; (ii) the institutional capacity assessment and evaluation of fiduciary risk of the executing agency; and (iii) work sessions involving the project team and BRDE officers.
- 1.2 BRDE was founded on 15 June 1961 by the states of Rio Grande do Sul, Santa Catarina, and Paraná to support the prosperity of southern Brazil. Since that time, BRDE has been a partner that supports projects for the region's development.
- 1.3 The general objective of the program is to support the resilience of the country's South Region at the local level in the states of Paraná, Rio Grande do Sul, and Santa Catarina amid the post-COVID-19 crisis.
- 1.4 BRDE is subject to monitoring and control by the Audit Office of Rio Grande do Sul, as well as to supervision by the Central Bank of Brazil. Its administrative and organizational structure is determined by the rules of procedures established by the Conselho de Desenvolvimento e Integração Sul [South Development and Integration Council] (CODESUL) and based on the charter approved by the legislative assemblies of the member states. The institution's fiduciary capacity for program management is adequate, and the fiduciary risk is accordingly considered low.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The main activity of BRDE is to provide long-term financing for productive investment projects in the country's South Region, offering lines of credit at lower interest rates and with shorter maturities than the average in the national financial system, with a focus on supporting projects with high social benefits.
- 2.2 In its Annual Public Policy and Corporate Governance Report, BRDE describes the main internal control and risk management structures. These structures are under the responsibility of the Superintendency of Risk Management, Internal Controls, and Compliance (SURIS), which is directly linked to the Board of Directors and reports to the Office of the BRDE President. BRDE identifies the risks associated with its operations as well as the concomitant mitigation actions, primarily in the case of credit, socioenvironmental, market, operational, and legal risks.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The institutional capacity assessment was conducted using the ICAP questionnaires. In the fiduciary areas associated with program execution, the fiduciary risk is considered low primarily because BRDE has a long track record, a solid organizational structure, and adequate risk management. In addition, it is supervised by the Audit Office of Rio Grande do Sul and the Central Bank of Brazil, and is subject to an independent private audit of its operations. At present, BRDE also receives funds for onlending from the World Bank and other external agencies.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

- 4.1 **Exchange rate.** The exchange rate for the accounting of transactions carried out with Bank resources will be the rate in effect on the date of transfer of the relevant funds to the beneficiary. The exchange rate to be used will be the buying rate published by the Central Bank.
- 4.2 **Audited annual financial statements of the program.** BRDE will deliver to the Bank annual financial statements for the program within 120 days after the close of each fiscal year, audited by a Bank-eligible external audit firm or by the Audit Office of Rio Grande do Sul (TC-RS). In the case of an external audit firm, audits will be funded with BRDE counterpart resources. The annual financial statements will be prepared in accordance with terms of reference previously agreed upon with the Bank.
- 4.3 **BRDE audited annual financial statements.** BRDE publishes its audited financial statements, and therefore will not be required to provide them.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 Since the operation is structured as a global credit program, in which the Bank provides funds to BRDE for onlending to direct beneficiaries, the provisions of paragraph 3.13 (under Procurement in Loans to Financial Intermediaries) of the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-15) will apply. Procurement by private-sector beneficiaries will be carried out in accordance with their respective customary or business practices. Procurement by public-sector beneficiaries will be carried out in accordance with the basic procurement principles, and the procedures will be established in the program Credit Regulations.
- 5.2 **Records and files.** The documents evidencing the subloans financed by the program will be kept in custody at BRDE.

VI. FINANCIAL MANAGEMENT

A. Programming and budget

- 6.1 BRDE has administrative autonomy and independent legal status. As a public institution, it observes the national regulations established for national development entities and therefore autonomously prepares and executes its

budget and programs its activities. BRDE annually prepares its business plan and its investment budget, both of which are submitted to CODESUL for approval.

B. Accounting and information systems

- 6.2 BRDE has a technology infrastructure for external financing, including from the World Bank, Agence Française de Développement (AFD), and others. In its capacity as a financial institution, it has a series of information systems for credit analysis and lending. These systems have been used successfully for the control of loans issued to beneficiary municípios. These technology platforms will be used to support this program.

C. Disbursement and cash flow management

- 6.3 Disbursements of the loan proceeds will be made in U.S. dollars, primarily in the form of reimbursement of expenses and/or, alternatively, advances of funds. Disbursement requests will be submitted to the Bank in accordance with the requirements set out in the loan contract and the program Credit Regulations, as well as in the Bank's Financial Management Guidelines.
- 6.4 For advances of funds, BRDE will submit a financial plan with estimates on placement of funds for up to six months. A new funds advance may be requested once supporting documentation has been provided that accounts for 80% of the previously disbursed proceeds. The Bank will conduct ex post spot reviews.

D. Internal control and internal audit

- 6.5 As part of its corporate governance, BRDE has an internal control and risk management structure in place. Responsibility for risk management and internal controls lies with the Superintendency of Risk Management and Internal Controls, which is directly linked to the Board of Directors. At the institutional level, BRDE has a robust code of ethics.

E. External control and reports

- 6.6 BRDE will deliver annual audited financial statements for the program within 120 days after the close of each fiscal year. These statements will be audited by the Audit Office of Rio Grande do Sul or by an independent audit firm acceptable to the Bank, in accordance with terms of reference previously agreed-upon with the Bank.

F. Financial supervision of the program

- 6.7 Program transactions will be subject to ex post review.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/20

Brazil. Loan ____/OC-BR to Banco Regional de Desenvolvimento do Extremo Sul (BRDE)
Program to Promote Local Development in the South (PROSUL)

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 Banco Regional de Desenvolvimento do Extremo Sul (BRDE), as Borrower, and with the Federal Republic of Brazil, as Guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Program to Promote Local Development in the South (PROSUL). Such financing will be in the amount of up to US\$100,000,000 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 ____ 2020)