

## Technical Cooperation Document

### I. Basic Information for TC

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|---|---|
| ▪ Country/Region:   | Brazil/CSC – Southern Cone  |
| ▪ TC Name:  | Design of Integral Urban Development Projects for Brazilian Municipalities  |
| ▪ TC Number:  | BR-T1474  |
| ▪ Team Leader/Members:  | Alves, Dalve Alexandre Soria (CSD/HUD) Team Leader; Arcia, Diego Andres (CSD/HUD) Alternate Team Leader; Hobbs, Jason Anthony (CSD/HUD); Tribouillard, Clementine Claire Dominique (CSD/HUD); Verissimo Da Silva, Carolina (LEG/SGO); Avila, Franczy Dianela (CSD/HUD); Guzman Osorio, Jessica (CSD/HUD); Villota Coral, Maria Alejandra (CSD/HUD); Valente Lins, Paula (CSC/GBR); De Freitas Severino, Ligia (CSC/GBR) |
| ▪ Taxonomy:   | Client Support  |
| ▪ Date of TC Abstract authorization:  | 04 March 2021   |
| ▪ Beneficiaries:  | <i>Banco Nacional de Desenvolvimento Econômico e Social</i> (BNDES), and Brazilian municipalities to be selected. <sup>1</sup>  |
| ▪ Executing Agency:   | Inter-American Development Bank (IDB)   |
| ▪ Donors providing funding:   | Ordinary Capital Strategic Development Program for Sustainability (SUS)   |
| ▪ IDB Funding Requested:  | US\$450,000   |
| ▪ Local counterpart funding:  | US\$0,00  |
| ▪ Disbursement period:  | 24 months   |
| ▪ Required start date:  | August 2021   |
| ▪ Types of consultants:   | Individuals; and Consultant Firms   |
| ▪ Prepared by Unit:   | Housing & Urban Development Division (CSD/HUD)  |
| ▪ Unit of Disbursement Responsibility:  | Country Office Brazil (CSC/GBR)   |
| ▪ TC Included in Country Strategy:  | No  |
| ▪ TC included in CPD:   | No  |
| ▪ Alignment to the Second Update to the Institutional Strategy 2020-2023 (AB-3190-2): | Social inclusion and equality; Environmental sustainability.  |

### II. Objectives and Justification of the TC

- 2.1 **Objective.** This Technical Cooperation (TC) aims at supporting *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES), the Brazilian municipalities to design integral urban development projects to promote urban economic reactivation and socio-economic development. The specific objectives are (i) to set up a joint strategy with the BNDES for the design and implementation of financial mechanisms for integral urban development projects, and (ii) provide technical assistance to the medium or large-sized Brazilian municipalities, during the preparation of proposals for urban development projects, including mobilizing expertise and resources from the private

<sup>1</sup> At present, two municipalities were preselected: Rio de Janeiro and Belo Horizonte, the final selection will depend on the non-objection communication from the Banks official liaison entity in Brazil. Any additional municipalities to be supported by this TC will be selected and defined based on criteria established in Component 2.

sector, ensuring that said proposals contemplate the requirements and the necessary studies that are aligned with IDB strategies.

- 2.2 **Background.** Brazil is one of the most populated and urbanized countries in the world, with a population of 211 million inhabitants (IBGE, 2020)<sup>2</sup> and approximately 85% of people living in urban areas. These urban areas generate 90% of the Gross Domestic Product (GDP) and most of the socio-economic innovation in the country. According to URBANET,<sup>3</sup> in 2018, Brazil had 37 medium-sized cities with a population between 300,000 and 1 million inhabitants, 19 cities ranging between 1 and 5 million people, and only two megacities with 10 million or more inhabitants.
- 2.3 As a result of internal migrations, Brazil's accelerated urbanization process is a relatively recent phenomenon associated with a set of changes in the country's economy, society, and politics along the last century, especially in its second half (figure 1). This process, however, was not followed by the advancement of comprehensive urban planning instruments. Although the first urban master plan was elaborated in 1930,<sup>4</sup> it wasn't until 1988 that urbanistic regulations were created with the new Brazilian Constitution. In 2001, the national "Law of the Cities" (*Estatuto das Cidades*)<sup>5</sup> fostered the creation of comprehensive master plans that were compulsory for cities above 20.000 inhabitants. The lack of legal enforcement associated with the economic crisis the country faced in the last decades generated urban structural problems such as (i) urban sprawling<sup>6</sup> – with the abandonment of the central urban areas and heritage sites; (ii) social inequalities – with the growth of informal settlements;<sup>7</sup> (iii) transportation diseconomies<sup>8</sup> and mobility precarious conditions; and (iv) deficiency in water and sewage supply.<sup>9</sup> More recently, other urban structural issues emerged, such as (i) the lack of urban resilience because of climate changes;<sup>10</sup> and (ii) the economic and sanitary<sup>11</sup> crisis worsened by COVID-19.

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<sup>2</sup> Brazilian Institute of Geography and Statistics (IBGE for its acronym in Portuguese).

<sup>3</sup> [Urbanet](#)

<sup>4</sup> *Plano Agache*.

<sup>5</sup> [Law No. 10.257](#), dated June 10, 2001.

<sup>6</sup> From 1960, Brazilian cities started a process of “peripherization”, not only by the low-income but also upper-income population (private condominiums). Sao Paulo Origin-Destination Surveys, for example, presented an increase of 266% in the number of kilometers driven between 1997 and 2007.

<sup>7</sup> According do IBGE (2010), around 11.4 million of people (6% of the total population in the period) live at informal resettlement in Brazil. The population of these informal resettlement are majority “brown” 68.4% (*pardo* in Portuguese) and are, at average, 27.9 years old. Rio de Janeiro is the Brazilian city with the largest number of people living in favelas, around 1.4 million of people (22% of the population).

<sup>8</sup> According to the Study of Diseconomies (ANTP, 2003), in 1997 the total amount of annual time losses with traffic congestion in 10 Brazilian cities is over 250 million pax/h for private transportation, and 256 million pax/h for public transportation.

<sup>9</sup> According to National System of Sewage Information, 2018, (SNIS for its acronym in Portuguese), 47% of the Brazilian households have no sewage treatment and 16% have no access to treated water.

<sup>10</sup> According to the PBMC (*Painel Brasileiro de Mudanças Climáticas*) the main Brazilian problems involving climate change and cities resilience are: increasing of temperatures, rising sea levels, heat islands, flooding, water and food shortage, oceans acidification and extreme events; and, informal resettlements are the most impacted by the climate change effects.

<sup>11</sup> [A pandemia de COVID-19: uma crise sanitária e humanitária](#)

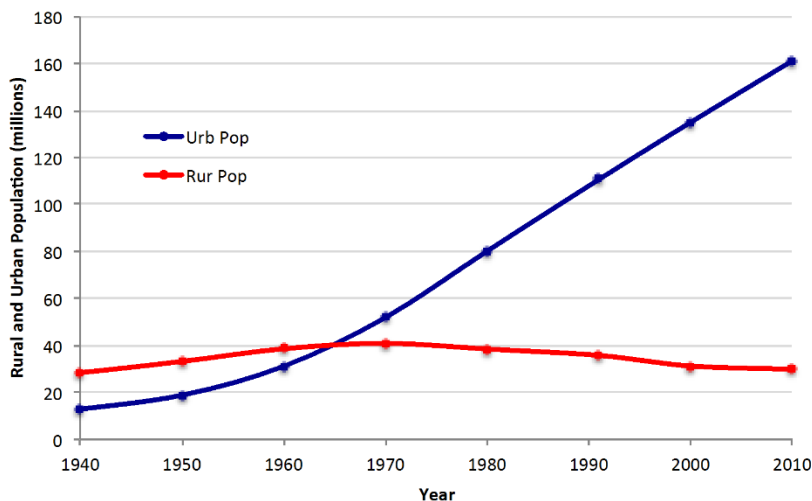


Figure 01: Urban population growth (IBGE)

- 2.4 Apart from the challenges the Brazilian urbanization process faces, especially its high deficit of essential services and urban infrastructure, with extreme poverty levels, the country also presents a very diverse urban network and significant regional economic disparities. The South and Southeast offer better urban infrastructure conditions and services. In contrast, the North, Northeast, and Central West regions lack adequate urban services and infrastructure, also pressed by interregional migrations.
- 2.5 Although Brazilian cities face significant challenges, they also present opportunities to improve productivity, economic competitiveness, and social inclusion. Enhancing living conditions requires investments in essential public services and urban infrastructure and strengthening local government capacity building to implement comprehensive public policies. Past experiences show that integral urban interventions, combined with social initiatives and physical investments, can achieve positive results. The ongoing Brazilian economic crisis since 2014, intensified by the economic impact of COVID-19, exacerbated urban challenges and reduced public investment capacities. In this context, the active participation of development institutions and their experience in innovative solutions for economic reactivation is essential to address such challenges and mobilize public sector expertise and resources.
- 2.6 The BNDES is the principal financing agent for development in Brazil and played a fundamental role in stimulating infrastructure expansion, local growth, and institutional strengthening, emphasizing environmental and social issues. Throughout its history, the BNDES operations evolved following the Brazilian socio-economic challenges. Its operations include support for exports, technological innovation, sustainable socio-environmental initiatives, and public administration modernization. The BNDES offers several financial assistance mechanisms to public administration entities, enabling investments in all economic sectors. In any supported undertaking, from the analysis phase up to the monitoring, the BNDES underscores three factors as strategic: innovation, local development, and socio-environmental development.
- 2.7 In addition, the BNDES has the Integrated Development of Municipalities (IDM) initiative, which provides funding in the following areas: (i) urbanization and infrastructure implementation projects, including interventions in risk areas and informal settlements; (ii) supply of infrastructure and equipment for education, health,

social assistance, sports, recreation, and public spaces; (iii) recovery and revitalization of degraded areas, of historical and heritage, cultural, tourism and environmental interest; (iv) environmental sanitation (i.e., water supply, sanitation, solid waste, and urban drainage); (v) public passenger transportation (urban, metropolitan and rural) and infrastructure; and (vi) housing improvements and supply of social housing in relocation or urban retraining projects. Under the IDM, the BNDES prioritizes innovative solutions for urban interventions, both in technical and construction issues, urban design, management, and socio-economic integration.

- 2.8 From 2011 to 2017, the BNDES did not receive new operations under the IDM due to the impossibility of directly contracting national financial institutions with the municipalities<sup>12</sup> (only the PMAT<sup>13</sup> line was without contingency). With the new non-contingency policy for loans to the public sector approved by the Federal Government (2018), new urban development projects joined the BNDES' portfolio. The BNDES has an active portfolio of 15 integrated development operations with municipalities totaling R\$1.2 billion.
- 2.9 **Justification.** In the last years, Brazilian cities have endured the effects of a prolonged economic crisis, with worsening urban infrastructure conditions and unsustainable urban planning strategies recently aggravated by the pandemic. Development banks, especially the IDB, could play a vital role in recommending and financing innovative local urban solutions by integrating creative social, environmental, and economic ideas into new municipal projects and mobilizing the private sector's expertise and resources. In particular, the IDB is a well-positioned partner considering its vast experience in designing and implementing initiatives such as PROCIDADES<sup>14</sup> in Brazil, the Emerging and Sustainable Cities Initiative (ESCI), and several multisectoral projects in different countries of Latin America and the Caribbean (LAC) region. However, most Brazilian municipalities have institutional, technical, or budgetary constraints for preparing critical studies to obtain the federal government's authorization sovereign guarantees<sup>15</sup> and the IDB requirements for obtaining a loan operation. These shortcomings motivate municipalities to request IDB support.
- 2.10 Besides, the BNDES challenge of serving various municipalities, usually with low institutional capacity to manage complex urban development projects, motivated this institution to request the IDB's support through this TC. Accordingly, the IDB plans to assist the BNDES in creating a strategic urban framework for its Department of Urban Development, Culture, and Tourism (DEURB) and strengthening the mechanisms of preparation and supervision of operations with a territorial and multisectoral focus. The BNDES seeks to introduce new innovative tools to work with municipalities, improve its financing mechanisms, and create new businesses that contemplate the work

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<sup>12</sup> With the launched of the Growth Acceleration Program (PAC) by the Federal Government, the loans to urban programs were made through the Federal Savings Bank (*Caixa Economica Federal*).

<sup>13</sup> Program for the Modernization of Tax Administration and the Management of Basic Social Sectors (PMAT for its acronym in Portuguese).

<sup>14</sup> PROCIDADES (BR-L1043), was an IDB Municipal Line of Credit to develop a quick and effective way to support municipal development in Brazil, in areas such as integrated urban development of poor neighborhoods, water and sewage, urban transport, social urban equipment and rehabilitation, with a strong emphasis towards the improvement of living conditions, access to basic services and strengthening of local development.

<sup>15</sup> This authorization from de External Finance Commission (COFIEX for its acronym in Portuguese) of the Brazilian Federal Government is a requirement to obtain the sovereign guarantee for loan operations with multilateral development banks. Therefore, it is necessary to present to the COFIEX a consultation letter (*carta-consulta*) with the technical description of the operation, as well as the petitioners fiscal situation.

articulated with other development institutions and the private sector. It is expected that with this TC, innovative instruments will be developed to improve the BNDES project management with municipalities, as well as the preparation of integral projects at the urban level.

- 2.11 In line with those requests, this TC will: (i) assist the BNDES in designing and implementing financial mechanisms for integral urban interventions as an engine of economic reactivation and socio-economic development in municipalities; and (ii) provide technical assistance to municipalities during the preparation of proposals for urban development projects, including fostering private sector participation (e.g., constructors, promoters, bankers, fund managers, start-ups, fintech's, etc.) by creating a plan to encourage investment opportunities and disseminate knowledge and best practices.
- 2.12 **The Bank's Value Added.** The IDB has broad regional experiences in creating urban-related initiatives and transferring the best institutional practices for municipal management and investment prioritization. For example, PROCIDADES (BR-L1043), which financed investments in integrated urban interventions; PNAFM or the National Program to Support Administrative and Fiscal Management of Brazilian Municipalities (BR0286; 1194/OC-BR, 1194/OC-BR-CPS); Urban Paraná (BR0374; 1405/OC-BR, 1405/OC-BR-CPS); and in Colombia through FINDETER (CO-L1155; 3596/OC-CO and CO-L1165; 3842/OC-CO).
- 2.13 **Strategic Alignment.** This TC is consistent with the Second Update to the Institutional Strategy 2020-2023 (AB-3190-2) and is expected to contribute to the Corporate Results Framework 2020-2023 – CRF (GN-2727-12) the development challenge of Social Inclusion and Equality. It will do so by (i) providing inclusive infrastructure and infrastructure services to ensure that urban areas are more inclusive for the poor and vulnerable; and (ii) including all segments of the population, especially the most vulnerable, in financial markets. This TC is also aligned with Climate Change and Environmental Sustainability's cross-cutting issue by mainstreaming climate change mitigation measures and sustainable infrastructure in selected projects.
- 2.14 This TC is also consistent with the Country Strategy for Brazil 2019-2022 (GN-2973), as it will contribute to reduce inequality and improve public services (third strategic area) by enhancing public spending efficiency, implement effective policies, and increase access to housing. In this context, the IDB will support creating more efficient financing mechanisms under better institutional coordination on all government levels. Actions to reduce the housing shortage will be promoted, centering on implementing housing projects based on metropolitan mobility, access to the workplace, environmental sustainability, and quality of life.
- 2.15 The proposed TC is also consistent with the Sector Framework Document of Urban Development and Housing (GN-2732-11) by promoting comprehensive urban infrastructure. This TC is also aligned with the Ordinary Capital Strategic Development Program for Sustainability (GN-2819-1), considering its objective to support municipal governments to prepare for challenges related to rapid urban growth in a sustainable manner, and its eligible activity "studies to carry out regulatory and institutional analysis as an input for improvements of current national and municipal regulatory and institutional frameworks"; and "support for the development, execution, and dissemination of innovative approaches, financing models, methodologies, data, and practices that can potentially replicate or scaling-up in a country or sub-region." Finally, this TC is aligned with the IDB's Sector Strategy Institutions for Growth and Social

Welfare (GN-2587-2) by promoting knowledge exchange related to institutional capacity and public management. It is fully aligned with the objectives of the IDB Integrated Strategy for Climate Change Adaptation and Mitigation and Sustainable and Renewable Energy (CCS) (GN-2609-1), which guides the scaling-up support for climate change mitigation and adaption activities in LAC.

### **III. Description of Activities/Components and Budget**

- 3.1 Component 1. Financial Mechanisms for Urban Development Projects (US\$150,000).** This component will finance consultancies to (i) assist the BNDES in developing a strategic urban framework for DEURB; and (ii) devise financial mechanisms or a new credit line instrument for comprehensive urban projects to promote urban economic reactivation and socio-economic development. These mechanisms will include: (a) strategic lines of business, considering the differences in terms of the banks' institutional profiles and financial conditions; (b) project eligibility criteria, with standards for designs and analysis; (c) elements to promote innovation, environmental sustainability, and gender and diversity; (d) an operational manual for advancing monitoring project implementation, including the development of a system of indicators to evaluate the project's benefits and impacts; (e) schemes for blended financing; (f) social and environmental assessment requirements, including environment licensing; (g) financial sustainable studies for public exoneration, through concession or PPP contracts; and (h) webinars and dissemination material. In addition, this component will finance knowledge management initiatives to promote best practices for integrated urban development and networking, besides promoting private sector case studies.
- 3.2 Component 2. Technical Assistance for Project Preparation (US\$300,000).** This component will finance consultancies to carry out feasibility studies for comprehensive urban development projects of Brazilian municipalities,<sup>16</sup> identifying, designing, and promoting better urban living conditions and socio-economic development. The activities may include, but not be limited to, the following activities: (i) design of indicators to monitor and evaluate projects' effectiveness and a system to assess the impact of the urban integral interventions on the beneficiaries quality of life; (ii) the development of the necessary studies for institutional capacity building and for institutional strengthening; (iii) civil works and institutional strengthening estimated budget; (iv) identification of beneficiaries and technical/urban feasibility studies of basic infrastructure and public spaces investments; (v) financial, economic, and institutional assessments, mechanisms to finance investments through reduced public participation, the creation of a plan to encourage investment opportunities, and knowledge and best practices dissemination; (vi) environmental and social safeguards assessments as needed; (vii) engineering and architecture preliminary studies when necessary; and; (viii) socio-economic studies to formulate policy interventions and define investments that can produce social and economic development in the targeted areas, and an improvement of living conditions.

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<sup>16</sup> The criteria to select any municipalities that may benefit from the TC are the following: (i) municipalities which present above 150,000 habitants; (ii) multisectoral urban project initiatives under design and aligned with the objectives of this TC; and (iii) municipalities which present non-objection communication from the Banks official liaison entity in Brazil.

- 3.3 The total cost of this TC will be US\$450,000, financed by the Ordinary Capital Strategic Development Program for Sustainability (SUS). No counterpart funding is contemplated.

#### Indicative Budget (US\$)

| Component    | Description   | IDB/Fund         | Total            |
|--------------|---|------------------|------------------|
| Component 1  | Financial Mechanisms for Urban Development Projects | \$150,000        | \$150,000        |
| Component 2  | Technical Assistance for Project Preparation        | \$300,000        | \$300,000        |
| <b>Total</b> |   | <b>\$450,000</b> | <b>\$450,000</b> |

#### IV. Executing Agency and Execution Structure

- 4.1 As requested by the beneficiaries, the activities financed by this TC will support the BNDES and the preselected municipalities of Rio de Janeiro and Belo Horizonte<sup>17</sup>. The Bank will be the executing agency since the number of the TC beneficiaries impacts a limited budget for each one, making efforts mobilization costly. In addition, some of the consultancy products are transversal, which would make the accounting process complex. Having the Bank as an executing agency will mitigate the difficulties above and enable the Federal and local levels to exchange experiences on progress and lessons learned. The Housing and Urban Development Division (CSD/HUD) will be responsible for technical supervision and administration due to its housing, urban planning, and sustainability technical expertise. One critical challenge is designing federal orientations with local feasibility (top-down approach) and promoting local innovations with national scalability (bottom-up approach). By executing the TC, the Bank, through CSD/HUD, will incorporate the activities' results directly into the ongoing dialogue with the BNDES and the subnational authorities involved in the investment projects prepared by the Urban Development Sector.
- 4.2 The IDB will be responsible for: (i) identifying the studies and technical work required for the execution of the TC; (ii) selecting any additional municipalities to benefit from the activities set out in Component 2; (iii) selecting, hiring, evaluating and paying consultants to provide the necessary services; (iv) supervising the consulting services; and (v) manage the execution and delivery of consulting services. The beneficiaries of the TC will provide technical input regarding the consulting services, which the Bank will consider as applicable.
- 4.3 **Procurement.** The activities provided for in this TC will be contracted by the Bank in accordance with Bank policies as follows: (a) Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4) and Guidelines OP-1155-4 for consulting firms; (b) section AM-650 of the Administrative Manual of the Bank for individual consultants; and (c) IDB Corporate Procurement Policy (GN-2303-28) for non-consulting services.
- 4.4 **Intellectual Property.** The Bank shall own the intellectual property rights of the products financed by this TC. They may be made available to the public under a Creative Commons license set out in AM-331 of the Bank's Administrative Manual

<sup>17</sup> During execution, provided sufficient resources are available, additional municipalities may be interested in benefitting from the activities of this TC and its respective advisory services. In such case, the Bank will review the corresponding request letters and will select any additional municipalities in accordance with the selection criteria set out in Component 2.

(Procedures for the Publication of Knowledge Products). If requested by a beneficiary, a license regarding one or more of the products may be granted and/or the intellectual property rights may be transferred through contractual commitments.

- 4.5 The Bank unit responsible for the execution of this TC will be HUD/CBR with the support of the Representation in Brazil which should act as the operation UDR. For Component 1, BNDES will play a key role in coordinating with HUD/CBR the TC's products. For this purpose, a working group comprised of BNDES and IDB technical representatives will be created to structure the presentation and discuss the key deliverables under the said component. Furthermore, IDB staff will provide specialized knowledge and technical inputs, and monitoring missions<sup>18</sup> will be planned and agreed upon with the BNDES to support proposed activities. For Component 2, the IDB will choose any additional beneficiaries to those that have been identified among Brazilian municipalities that present projects aligned with this TC's objectives.

## **V. Major issues**

- 5.1 The following risks and mitigation measures have been identified: (i) difficulties in aligning the IDB and BNDES operative and financial instruments; (ii) lack of data and information to develop the analysis and studies; and (iii) delay in the procurement processes due to the requirements for internalizing external financial resources, and to the procurement alignment between the Brazilian and IDB policies. The mitigation measures considered are: (i) specific consultancies aim to align the IDB and BNDES operative and financial instruments, and also could explore the possibilities to develop instruments for co-financings, which will be part of the studies of the Component 1; (ii) to mitigate the risk of lack of data the consultants and firms will use broad public information and databases available at national and municipal level, also we will develop periodic meetings with the municipalities involved to resolve information requested by the consultants; and, (iii) according to beneficiaries requirement, IDB will execute the TC and, therefore, conduct the hiring process to ensure that consultants are hired in a timely manner to design and develop the products identified.

## **VI. Exceptions to Bank policy**

- 6.1. No exceptions to Bank policies have been identified.

## **VII. Environmental and Social Strategy**

- 7.1 According to the Environmental and Safeguards Compliance Policy (OP-703), this TC has been classified as Category "C." The latter ratifies a negative minimum or inexistent environmental, social, and cultural impact; therefore, no environmental assessment studies or consultations are required for Category "C" operations. (see the "[Safeguard Screening Form](#)" and the "[Safeguard Policy Filter Report](#)").

## **Required Annexes:**

[Request from the Client - BR-T1474](#)

[Results Matrix - BR-T1474](#)

[Terms of Reference - BR-T1474](#)

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<sup>18</sup> Not funded with the resources of this TC.



[Procurement Plan - BR-T1474](#)