Project Information Document (PID)
BASIC INFORMATION

A. Basic Project Data

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<th>Country</th>
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<td>Brazil</td>
<td>P170682</td>
<td>Southern Brazil Urban Resilience Program (SUL RESILIENTE)</td>
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<th>Implementing Agency</th>
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<td>Banco Regional de Desenvolvimento do Extremo Sul (BRDE)</td>
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Proposed Development Objective(s)

The Project Development Objective (PDO) is to promote urban resilience in selected municipalities in Southern Brazil to address natural disaster and extreme climate-related events.

Components

Investments to promote Urban Resilience
Institutional strengthening of municipalities for Urban Resilience
Project Management and Institutional Strengthening

PROJECT FINANCING DATA (US$, Millions)

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DETAILS

World Bank Group Financing
B. Introduction and Context

**Country Context**

1. **After rapid growth and social progress between 2001 and 2010, Brazil’s economy first stumbled and then fell into deep recession, threatening a decade of development progress.** 24.8 million Brazilians were lifted out of poverty\(^1\) between 2006 and 2015 and the Gini coefficient\(^2\) of household income fell from 0.59 in 1999 to 0.51 in 2015. However, the economic crisis precipitated a rapid rise in unemployment in the country, with total job losses of 2.6 million in 2015 and 2016. The unemployment rate peaked 13.6 percent in March 2017 and slowly stabilized to 12.7 percent in March 2019. As a result, poverty increased to 21 percent by 2017 and is estimated to have leveled off at 20.9 percent in 2018. As of the end of August 2019, economic recovery remained weak with 1.1 percent growth in 2017 and 2018, and 1.8 percent growth projected for 2019.

2. **Restoring fiscal sustainability, resuming growth, and increasing investments in infrastructure are among the most urgent challenges for Brazil.** Brazil’s investment in infrastructure at 2.1 percent of Gross Domestic Product (GDP) is one of the lowest among its peers. Higher level of investment in infrastructure is critically needed to maintain the existing infrastructure stock, resume the economic growth, and expand the access to social services. This calls for improvement in planning and implementation capacity, as well as mechanisms to leverage public and private resources to finance sustainable investments in infrastructure.

3. **Subnational governments’ capacity to cope with large fiscal disequilibrium and provide infrastructure at the local level is particularly limited.** The economic crisis has caused a drastic decrease in direct investments from the Government of Brazil (GoB)’s flagship programs supporting water and sanitation, drainage, integrated urban upgrading, disaster risk management (DRM), risk mitigation investments, among others. According to the GoB\(^3\), only 69.7 percent of activities planned

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\(^1\) Extreme poverty is defined as people living on less than US$1.90 per day.

\(^2\) The Gini coefficient measures the inequality among values of a frequency distribution (for example, levels of income). A Gini coefficient of zero expresses perfect equality where all values are the same (for example, where everyone has the same income).

\(^3\) [http://www.pac.gov.br/pub/up/relatorio/37855886e9418dce3f9bae3128444233.pdf](http://www.pac.gov.br/pub/up/relatorio/37855886e9418dce3f9bae3128444233.pdf)
under the Growth Acceleration Program (Programa de Aceleração do Crescimento – PAC)—the main ongoing federal investment program—were completed by 2018. Hence, a great number of municipalities, notably those with a smaller population, suffer from restricted sources of revenue, limited financial and municipal management capacity, and in turn difficulties in accessing funds (either grants or loans) for investments in urban infrastructure and disaster risk mitigation.

Sectoral and Institutional Context

4. Brazil’s rapid urbanization in past decades contributed to increased exposure to natural hazards, especially of vulnerable communities. Since 1960, Brazil’s development was propelled by a massive migration to urban centers. This combined with inadequate planning and service provision has pushed a large proportion of the poor migrants in search for jobs and better living conditions in the city centers to settle in unregulated risk areas such as steep slopes, creeks, and low-lying plateaus. Alternative settlements are public housing complexes located in peripheral areas lacking infrastructure and services. According to the GoB, the 872 municipalities mapped as disaster risk areas are home to approximately 8.3 million people.

5. The DRM and climate agendas have been gaining attention recently, as impacts from climate change and disaster events are substantial and expected to grow. Until recently⁴, Brazilian authorities and the public had considered that the country’s disaster risk profile was low, as seismic hazards are very low or almost nonexistent and extreme temperatures are not commonly observed. Nevertheless, climate change is resulting in more frequent and intensive hydrometeorological events such as floods, flash floods, landslides, and storms, which combined with unregulated urbanization and insufficient infrastructure, elevate the exposure and vulnerability, thus generating higher disaster risks and impacts. Between 1995 and 2014, according to an assessment of over 23,000 reports from the National, State and Municipal Civil Protection Defenses, a monthly average of BRL 800 million (equivalent to US$190 million) loss nationwide has been reported. The World Bank has highlighted these impacts through a series of technical assistance (TA) funded by the Global Facility for Disaster Risk Reduction (GFDRR).

6. Brazilian cities crucially lack the financial resources for disaster risks mitigation investments and capacity to implement resilience cross-cutting policies. According to the National Civil Protection and Defense System (Sistema Nacional de Proteção e Defesa Civil – SINDPEC) instituted in 2012 by Law 12.608/2012 (known as the DRM Law), municipalities have the mandate to coordinate and execute DRM-related activities. Moreover, in the 1980s public policies were initiated to address informal settlements and infrastructure provision, and in the 2000s DRM-specific legislation was developed. However, the capacity of subnational governments⁵ in DRM knowledge, human resource, and institutional arrangement to plan, implement, and enforce DRM regulations has fallen behind urban growth, resulting in increasing disaster exposure of vulnerable people and economic assets.

7. Brazil’s Southern Region is particularly characterized by a strong network of medium and small-size cities. The Southern region includes the states of Paraná (PR), Santa Catarina (SC) and Rio Grande do

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⁴ The 2011 events in the mountainous region of Rio de Janeiro state, which had a death toll of 1,000 people, led to the National Government launching a comprehensive set of efforts in DRM nationwide. The strategy included efforts from disaster risk identification and mitigation to improving emergency response capacity using the civil protection and defense systems.

⁵ In the Brazilian federative administrative arrangement, subnational governments refer to both municipal and state-level governments, different from the GoB which operates at the national level.
Sul (RS), as shown in Annex 7, Maps. It has an area of 563,802 km$^2$, and a population of 29.6 million. The urbanization of Southern Brazil started at the end of the 19th century when an abundant contingent of European migrants arrived in search of opportunities in the countryside after slavery was abolished. Hence, the region is characterized by having few large cities (e.g. Curitiba and Porto Alegre with populations of nearly 2 million and 1.5 million, respectively). Overall two-thirds of the Southern Brazil population is living in small to medium size cities$^6$, which have limited financial, technical, and management capacities to keep up with the needs of a growing population and to address problems such as urban sprawl and climate/disaster externalities. It is projected that over the next 20–30 years, the population growth rate in Brazil will be around 1.2 percent per year, with a stronger shift toward secondary urban centers. This will ultimately bring significant challenges to smaller municipalities that lack institutional and financial capacity.

8. **Brazil’s South region has been among the most affected from disasters during recent years and faces increasing challenges in addressing urban and climate-related risks.** The referred challenges link to the region’s unique system of cities and its exposure and vulnerability contexts. Annex 2 presents the disaster profile of Brazil and the Southern region, as well as a poverty and social assessment.

(a) **Significant pockets of poverty.** While the three states of the Southern Region of Brazil show better socioeconomic indicators than the country averages, they still count for a contingent of 3.9 million people living with less than $5.50 per day in 2011 PPP$^7$ and 8.1 million people that are vulnerable to poverty$^8$. In addition to the region’s exposure to natural hazards, the risk of such socially vulnerable population to remain in poverty, have poverty levels increased or be brought back to poverty in post disaster situations is significant and demands urgent action from government authorities.

(b) **High concentration of poverty in risk areas.** It is estimated that more than 700,000 people in over 144 municipalities live in disaster risk areas in the Southern region. Strong linkages exist between poverty and disaster risks in these states as the poor are disproportionally represented in disaster-prone areas: the percentage of households in at-risk areas with monthly average per capita income below minimum wage level ranges from 42.2 percent in SC, 57.7 percent in RS, to 69.3 percent to PR. Reducing disaster risks will therefore have strong impact on the welfare of the poor in these states. Children 14 and younger account for over a quarter (27.4 percent) of the population in at-risk areas and elderly (60+ years old) account for another 8.6 percent of this population.

(c) **Leading position in the Nation’s ranking of economic costs of disasters.** The Southern states are among the most affected in Brazil in terms of quantified economic costs (damages and losses) due to natural disasters from 1995 to 2004. RS occupies the first position in the National ranking, while

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$^6$ Municipality (município) represents the local government level in Brazil, responsible for land use planning, enforcing, as well as overall service and infrastructure provision. ‘Small’ municipalities are those with populations of up to 50,000 inhabitants; ‘mid-size’ municipalities have populations ranging from 50,001 and 100,000; ‘large municipalities have populations ranging from 100,001 and 900,000; municipalities with population above 900,000 are considered ‘metropolis’ (IBGE, Instituto Brasileiro de Geografia e Estatística. Censo Demográfico de 2010. Rio de Janeiro: IBGE, 2010).

$^7$ World Bank estimates based ion SEDLAC harmonized data.

$^8$ Poverty Brazil at a Glance. SEDLAC (CEDLAS and the World Bank).
SC and PR are 3rd and 5th place. According to Federal Data (S2ID System9), 8,428 events were classified and reported as disasters between 1991 and 2017. They resulted in 459 deaths, 1.87 million people displaced or homeless, and a total number of 36.87 million people affected in Southern region. A study in SC10 estimated that disaster events cause significant losses at an annual average of BRL 645 million (US$154 million equivalent), while a 20-year return period event can incur losses of up to BRL 2.3 billion to the state (US$550 million equivalent).

(d) **Gender inequalities in Southern Brazil reinforced by disasters.** Female-headed households face a double handicap: they are overrepresented among the households more exposed to natural hazards and also among the poorer strata. Specifically, 55.7 percent of female-headed households in at-risk areas in the South Brazil have incomes of less than 1 minimum wage per capita (including 74.0 percent in the state of Paraná, 62.2 percent in the state of Rio Grande do Sul and 47.6 percent in Santa Catarina)11. Women face a harder challenge to cope and recover from disasters. Therefore, investing in risk mitigation will likely have a positive effect in fighting this disadvantage12 13. In this perspective, even in absence of any gender-specific action, the Project is expected to automatically benefit women at least equally to men.

9. **Very limited access of private sector financing to municipalities in Brazil adds to the challenges.** Small and medium municipalities do not have access to financing from the private banking sector in Brazil, only from public banks, including Caixa Econômica Federal and BNDES, with the latter often targeting medium/larger municipalities. These banks also provide most of the funding for Banco Regional de Desenvolvimento do Extremo Sul (BRDE), the proposed borrower and implementing agency, especially BNDES, but with significant recent funding reductions (from over 95 percent to about 70 percent in the last two years, expected to decrease to 50% of total BRDE funding).

10. **Thus, BRDE has requested to partner with the World Bank to deepen its financing and technical support for disaster risk mitigation and urban resilience in the Southern region.** This partnership is envisaged to enhance BRDE’s capability to support municipalities, with a focus on financing investments and technical assistance (TA) on natural disaster mitigation and urban resilience. The proposed credit line would primarily reach (but not be limited to) small and medium municipalities facing significant disaster risks in Southern Brazil, as this group of cities currently struggles with accessing credit to tackle climate-specific challenges.

11. **BRDE has a strong outreach14 in the region.** Having above 90 percent of the municipalities in Southern

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9 S2ID: Sistema Integrado de Informações de Desastres [https://s2id.mi.gov.br/]
13 IUCN. Disaster and gender statistics Fact Sheet; and Bradshaw et Fordham (2013). Women, Girls and Disasters – A Review of DFID.
14 There are 1,188 municipalities located in Southern Brazil, 33 percent of which are in PR (399), 25 percent are in SC (293), and 42 percent in RS (496). Ten percent of the total number of municipalities in South Brazil are BRDE’s clients, as part of their credit line for municipalities (BRDE Municípios), launched in 2015.
Brazil as its clients, BRDE has been making efforts to deepen its support to the three states (PR, SC, and RS). Despite being a small financial entity, BRDE’s diverse portfolio covers areas such as agriculture (largest share of its portfolio), infrastructure, retail commerce, technological innovation, services, and industry. The business model of the BRDE includes direct lending (over 80 percent of its portfolio) and second-tier lending to credit cooperatives. The corporate governance structure of the BRDE includes representatives from the three states in the Board of Directors, which take unanimous decisions. The three states being shareholders of the BRDE reduces the risk of political influence on the BRDE’s decisions.

12. **BRDE has defined a strategy to diversify its funding sources and support the public sector by offering financing solutions to municipalities.** Its main funding source from BNDES has been declining substantially in recent years, requiring BRDE to diversify its funding sources for long term credit, including through the proposed credit line. BRDE started its financing program to municipalities in 2015 (**BRDE Municípios**). The program was launched to improve municipalities’ lack of access to long-term credit and technical assistance for project design and execution. The credit line was designed to be a flexible investment line, including sustainable cities (clean and renewable energy, public lighting and energy efficiency, solid waste management); municipal infrastructure (urban mobility, sanitation and machinery for road rehabilitation); tourism; and regional development. As of June 2019, the stock of loans to municipalities was R$ 156 million (1.2% of the total loan portfolio).

13. **BRDE is licensed and supervised by the Central Bank of Brazil (BACEN) and shows adequate financial fundamentals.** As of June 2019, the Capital Asset Ratio (CAR) was 17.7% (compared to the regulatory minimum of 8.0%). BRDE’s liquidity risk is limited, since its funding is fully hedged with the credit products offered. The liquidity ratio (liquid assets over short term liabilities) is adequate at 182% as of June 2019 and has been stable in the last years. BRDE’s portfolio has had minimal growth in the last year largely due to the reduction of funding from BNDES, as well as due to a decrease in the demand for loans in the context of a weak economy. The quality of its loan portfolio is strong, with a very low NPL ratio of 1.5% of total loans as of June 2019 (as defined by BACEN regulation\(^\text{16}\)), below overall banking sector NPL ratios. Provisions are also adequate, covering three times the level of NPLs. Profitability is low, albeit increasing, with a Return of Equity (ROE) of 7.9% as of June 2019. BRDE has developed appropriate policies for the management of the relevant risks. The most relevant risk is credit risk. Liquidity, market and interest rate risk are low due to the structure of funding and application of funds. The full assessment of BRDE as a FI is presented in Annex 6.

14. **The Project proposes an innovative wholesale financing pilot for Urban Resilience in Brazil, through a Financial Intermediary (FI) committed to promote sustainable development and aiming to diversify its funding sources.** It will serve as a pilot for potential scale-up in line with the GoB’s sectoral priorities. BRDE has experience in financing municipalities and a clear corporate mandate on the sustainability agenda by complying with United Nations Sustainable Development Goals (SDGs). Combined with the region’s history of disaster risk management policies and practices, this is an opportunity to pilot a wholesale approach to finance municipalities, rather than individually, through an FI, which is committed to promote urban resilience in the region. This innovative engagement is

\(^{15}\) In addition, BRDE is receiving funds from: FGTS (**Fundo do Garantia do Tempo de Serviço**); European Investment Bank, AFD (French Development Agency; FINEP, FCO (Constitutional Fund for agriculture and companies of Mato Grosso do Sul); FSA (**Fundo Setorial de Audiovisual**); and Tourism Ministry.

\(^{16}\) Total Loans with arrears of 15 or 30 days, depending if the residual maturity of them are below or above 36 months.
likely to have a great demonstration effect in other regions in Brazil. If successful, the model could be scaled up by BRDE in future operations and/or adapted to reach other geographic areas and sectors.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)
The Project Development Objective (PDO) is to promote urban resilience in selected municipalities in Southern Brazil to address natural disaster and extreme climate-related events.
15. The proposed Project will support access to financing (via the creation of a credit line) for selected Southern Brazil municipalities to prevent, mitigate and/or prepare for disaster and extreme climate events, and therefore enhance their resilience. Eligible investments to be financed will include several integrated physical infrastructure and/or technical assistance. Achievement of the PDO will be measured with the following key indicators:

(a) People benefited from improved or new resilient infrastructure, of which female; and
(b) Southern Brazil municipalities supported by the Project.
D. Project Description

Component 1: Investments to Promote Urban Resilience (US$115.5 million, of which US$96.0 million IBRD financing)

16. Component 1 supports BRDE’s lending to municipalities of BRDE state shareholders, currently being RS, SC, PR for the construction or upgrade of infrastructure to mitigate the impacts of natural disaster and climate-related risks such as floods, flash floods, landslides and other erosion processes.

17. Eligible investments include, inter alia: (a) macro and micro drainage systems and integrated urban water management solutions to allow for storage, detention and infiltration; (b) dredging; (c) slope stabilization; (d) riverbank protection; (e) urban and linear parks; (f) coastal protection to mitigate and prevent erosion; (g) construction and/or rehabilitation of urban and rural roads in association with disaster risk prevention or mitigation; (h) urban upgrading to reduce exposure to disasters; (i) solid waste collection and treatment; and (j) housing solutions for the resettlement of families evacuated from disaster prone areas or impacted by the Project.

18. BRDE will offer on-lending in Brazilian reals (BRL) to help municipalities manage credit risk. 75 percent of the loan will be given with 12-year maturity, which enables conversion of the loan to BRL17. The loan will be converted to BRL upon or after disbursement, and the BRL interest rate will reflect the terms IBRD can achieve in the cross-currency swap market. Based on recent market conditions, the interest rate to municipalities will be less than 10%18, which compares favorably to existing public banks’ credit lines for municipal finance. The remaining 25 percent of the loan will be with 25-year maturity and in EUR with a final cost to municipalities at approximately 4%. EUR will be offered only to municipalities that can absorb the foreign exchange (FX) risk as determined by the BRDE’s credit risk assessment.

19. All municipalities of BRDE state shareholders, currently being RS, SC, PR, can apply to the credit. BRDE will be responsible for the technical, financial and fiscal assessment of the municipalities. The technical assessment will ensure that the municipal borrowers under the Project have propose activities consistent with the Project objective of mitigating disaster risks and improving urban resilience. BRDE will also undertake implementation capacity assessment and social and environmental screening. The financial and fiscal health of municipalities will be assessed in accordance with BRDE’s own credit risk assessment methodology, which was considered to be adequate by the World Bank. The assessment will be complemented by the roll out of a sensitivity analysis to FX risk for those municipalities requesting a sub-loan in foreign currency. If the sensitivity analysis determines that the FX loan can negatively impact municipalities’ fiscal situation and capacity to repay, such municipalities will be eligible only for local currency financing.

20. The proposed investments will be identified and appraised during implementation. The technical and fiscal eligibility criteria for the assessment of the capacity of municipalities’ and for the selection of the investments under Components 1 and 2 are presented in Section IV of this Project Appraisal Document (PAD) and detailed in the Project’s Operations Manual (OM). The OM also contains a detailed matrix for eligible investments. These criteria would apply for both component 1 and 2.


22. Component 2 aims to enhance the institutional capacity of BRDE state shareholders, currently being RS, SC, PR to design, implement, execute, and monitor urban resilience projects. To enhance sustainability and replicability of
the Project over time, the eligible interventions will involve TA, services and/or procurement of equipment and software.

23. Eligible investments include, inter alia: (i) technical and environmental sector studies; (ii) detailed project designs; (iii) disaster risk, susceptibility and/or vulnerability mapping; (iv) drainage plans; (v) solid waste management plans; (vi) municipal DRM and/or contingency plans; (vii) gender-sensitive training to municipal staff; and (viii) procurement of systems and/or equipment for natural hazards monitoring, early warning systems, emergency response, civil defense, and protection equipment.

Component 3: Project Management and Institutional Strengthening (US$2.5 million, of which US$0.5 million IBRD financing)

24. Component 3 aims to build BRDE’s institutional capacity and support with Project-management-related activities ranging from technical, fiduciary, social, and environmental risk management, communication and outreach, to monitoring and evaluation (M&E). Specifically, this component shall support the development of an gender-sensitive impact evaluation framework for the overall operation. BRDE will also be supported to institutionalize knowledge on engineering solutions for disaster risk mitigation, as well as serve as a one-stop shop for municipalities seeking to mitigate disaster risks. BRDE will be able to develop an institutional competitive advantage in the urban resilience agenda offering both financing options and technical expertise.

25. Eligible activities under Component 3 include operating costs, gender-sensitive DRM/urban resilience training, TA, services and/or procurement of equipment, elaboration of a methodology for BRDE to evaluate the gender considerations of subprojects upon their review for funding, as required. Moreover, as the Project evolves in implementation the component will support other emerging needs, as appropriate.

Project Cost Estimate and Financing

*Table 1: Estimated Project Costs and Financing Plan (in US$ million)*

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17 The cross-currency swap market for longer maturities does not offer attractive pricing to the extent the market even exists.
18 Loans to municipalities by Caixa and BNDES are priced at around 10-11%, often with 10 to 20-year maturities. Caixa’s most recent product for municipal finance has a 10-year maturity. The pricing by Caixa consists of monetary policy rate SELIC currently at 5% (or CDI similar) + Caixa spread of approximately 5%, and by BNDES (TLP in December 2019 (IPCA + 1.68% = 4.68%) + BNDES spread of approximately 5%).
26. Environmental and social risks are rated Substantial but the municipal subprojects to be financed by BRDE are not likely to result in significant impacts on the environment. The rationale for the proposed rating is linked to the following aspects: (a) the BRDE’s specific lack of experience in working with the World Bank and (b) the fact that municipal subprojects will not be identified before Appraisal. Adequate environmental and social risks and impacts management tools have been designed by the Borrower. They include an exclusion list, robust procedures to screen the municipal subprojects against eligibility environmental and social criteria as well as to classify their risk levels, clear guidelines on the preparation of environmental and social risk management plans and monitoring and reporting on compliance with the measures and activities included in these plans. These tools have been compiled in an Environmental and Social Risks and Impacts Management Manual, which (i) combines the adequate features of BRDE’s ESMS with additional environmental and social requirements and (ii) will be publicly disclosed and consulted with key stakeholders prior to appraisal.

E. Implementation

27. The GoB will be the Guarantor providing sovereign guarantee to BRDE, which is the Borrower at the subnational level. The Project Management Unit (PMU) will be set up within BRDE, reflecting and/or adapting, as appropriate, the implementation arrangements that have been successfully functional as part of other experiences with other international organizations. Key staff within BRDE’s organizational structure will act as focal points, with responsibility for Project coordination, implementation (in multiple areas, such as municipalities’ creditworthiness and capacity assessment, subproject technical eligibility assessment, subproject supervision, procurement, financial management and social and environmental risk management), supervision, and monitoring and evaluation (M&E) tasks.

28. Overall, the head of Superintendencia de Planejamento e Sustentabilidade (SUPLA) will play the general coordination role, in direct association with the head of Departamento de Novos Negócios (DEPEN), who will play a technical coordination role, thus centralizing communication with the World Bank. BRDE will be responsible to maintain an appropriate level of staff to successfully implement the Project, in compliance with the World Bank’s standards and fiduciary (procurement and financial management) and Socioenvironmental policies. Funds from Component 3 (Project Management and Institutional Strengthening) can be used to hire individual consultants to support Project implementation as needed.

29. Participating municipalities will be responsible for planning and implementing subprojects that would entail
conducted procurement (for components 1 and 2, as appropriate); and carrying out M&E and sharing reporting with BRDE. A draft sub-loan agreement template between BRDE and the sub-borrowing municipalities will be included into the Project’s OM. This agreement will contain the financial terms and conditions of the credit line for municipalities; and the responsibilities of municipalities towards BRDE.

30. A comprehensive Assessment of the BRDE as a FI is presented in Annex 6. Annex 1 presents more details on the proposed Implementation Arrangements and Support Plan. A full description of the Project’s overall implementation arrangements, including functions and related responsibilities, is presented in the OM.

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APPROVAL

<table>
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<th>Task Team Leader(s):</th>
<th>Frederico Ferreira Fonseca Pedroso</th>
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<td></td>
<td>Emanuela Monteiro</td>
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Approved By

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<th>Environmental and Social Standards Advisor:</th>
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<tr>
<td>Practice Manager/Manager:</td>
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<tr>
<td>Country Director:</td>
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