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BRAZIL

RESTRUCTURING AND QUALITY IMPROVEMENT PROGRAM OF THE HOSPITAL AND SPECIALIZED CARE NETWORK OF THE CITY OF SÃO PAULO – AVANÇA SAÚDE II (BR-L1630)

TENTH INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE SOCIAL SPENDING MODERNIZATION PROGRAM IN BRAZIL – PROSOCIAL (BR-O0009)

LOAN PROPOSAL

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2. Monitoring and evaluation plan
3. Environmental and social review summary
4. Procurement plan

OPTIONAL

1. Program economic analysis
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ABBREVIATIONS

CCLIP	Conditional credit line for investment projects
CNES	Cadastro Nacional de Estabelecimentos de Saúde (National Register of Health Care Facilities)
ESMP	Environmental and social management plan
ESRS	Environmental and social review summary
HDI	Human Development Index
IBGE	Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics)
LEED	Leadership in Energy and Environmental Design (certification)
LGBTQIAP+	Lesbian, gay, bisexual, transgender, queer, intersex, asexual, and other sexually and gender diverse people
ONA	Organização Nacional de Acreditação (National Accreditation Organization)
PCU	Program coordination unit
PPP	Public-private partnership
RAIS	Relação Annual de Informações Sociais (Annual Report on Social Information)
SEAID	Secretaria de Assuntos Internacionais e Desenvolvimento (Department of International Affairs and Development)
SGHx	Sistema de Gestão Hospitalar (Hospital Management Information System)
SIS	Sistema de Informações Hospitalares (Hospital Information System)
SMS	Secretaria Municipal de Saúde de São Paulo (São Paulo Municipal Health Department)
SOF	Sistema de Orçamento e Finanças (Budget and Finance System)
SOFR	Secured Overnight Financing Rate
SPMHN	São Paulo Municipal Hospital Network
SUS	Sistema Único de Saúde (Unified Health System)

PROGRAM SUMMARY

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<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><td colspan="3">Borrower:</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
<tr><td colspan="3">City of São Paulo</td><td>Amortization period:</td><td>24.5 years</td></tr>
<tr><td colspan="3">Guarantor:</td><td>Disbursement period:</td><td>5 years</td></tr>
<tr><td colspan="3">Federative Republic of Brazil</td><td>Grace period:</td><td>6 years[b]</td></tr>
<tr><td colspan="3">Executing agency:</td><td>Interest rate:</td><td>SOFR-based</td></tr>
<tr><td colspan="3">City of São Paulo, through its Municipal Health Department (SMS)</td><td>Credit fee:</td><td>[c]</td></tr>
<tr><td>Source</td><td>Amount (US$)</td><td>%</td><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td>IDB (Ordinary Capital):</td><td>205,300,000</td><td>50</td><td>Weighted average life:</td><td>15.25 years</td></tr>
<tr><td>Local:</td><td>205,300,000</td><td>50</td><td rowspan="2">Approval currency:</td><td rowspan="2">U.S. dollar</td></tr>
<tr><td>Total:</td><td>410,600,000</td><td>100</td></tr>
<tr><th colspan="5">Program at a Glance</th></tr>
<tr><td colspan="5">Program objective/description: The operation's general objective is to improve the health conditions of the population of the City of São Paulo by expanding access to and improving the quality of health services, consolidating the health care networks in the city's most vulnerable regions. Its specific objectives are to: (i) improve access to hospital services at hospitals of the São Paulo Municipal Hospital Network (SPMHN) under direct management; (ii) improve the quality of health services in the City of São Paulo; (iii) boost the efficiency of SPMHN hospitals under direct management; and (iv) strengthen the integration of SPMHN hospitals under direct management with the other levels of care.</td></tr>
<tr><td colspan="5">Special contractual conditions precedent to the first disbursement of the loan: (i) publication, in the City of São Paulo's Official Gazette, of the legal instrument establishing the program coordination unit and the appointment of its coordinators based on the composition described in paragraph 3.4; and (ii) approval and entry into effect of the program Operating Regulations, in accordance with the terms and conditions previously agreed on with the Bank (paragraph 3.6).
Special contractual conditions for execution: (i) prior to the start of the program's first works project and with the proceeds of this loan, the borrower will provide the Bank with evidence that a firm has been hired, under the terms agreed on with the Bank, to support program management and the technical and environmental supervision of the works; and (ii) if the preliminary studies demonstrate feasibility, the borrower will sign, with SP Parceiras or another institution in charge of structuring the public-private partnership (PPP), an agreement, under the terms agreed on with the Bank, to govern the responsibilities of the parties and the use of resources (paragraph 3.7). For other special contractual clauses, see Annex B of the environmental and social review summary (required link 3).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: None.</td></tr>
<tr><th colspan="5">Strategic Alignment</th></tr>
<tr><td>Objectives:[d]</td><td colspan="4">O1 ☒ O2 ☒ O3 ☐</td></tr>
<tr><td>Operational focus areas:[e]</td><td colspan="4">OF1 ☐ OF2-G ☒ OF3 ☒ OF4 ☒ OF5 ☐ OF6 ☒ OF7 ☐
OF2-D ☒</td></tr>
</table>

[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, commodity, and catastrophe protection 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 inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

[d] O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

[e] OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); and OF7 (Regional integration).

I. Description and Results Monitoring

A. Background, problem to be addressed, and rationale

1.1 **City of São Paulo: different realities in one metropolis.** São Paulo, capital of the state of São Paulo, is the world's sixth most populous city. It is the financial center of Brazil and accounts for 12% of the country's gross domestic product (GDP). Its high Human Development Index (HDI) masks the enormous disparities between its regions,[1] which have a direct impact on the quality of life and health of the population, especially those living in outlying areas. Among its 12 million inhabitants (2022 Census), life expectancy at birth varies widely between districts, with up to 27 years of difference (e.g., 85.3 years in Alto de Pinheiros versus 58.4 years in Cidade Tiradentes).

1.2 The fiscal situation of the City of São Paulo is reflected in its "A" repayment capacity rating, due to a low ratio of public debt to net current revenues (26.82%), a solid current savings rate (92.8%), and good liquidity (11.74%), meeting established external financing eligibility standards.

1.3 **Demographic challenges.** Recent studies [1] show that the population aging index in the City of São Paulo is above the national average, representing 15% of the total number of residents. According to the National Health Survey (2019), older adults are mainly women (60%) and white (70%),[2] and 14% of persons with disabilities are age 60 or older. However, the elderly population is distributed unevenly across districts. Currently, the districts with the highest number of older adults have the highest per capita income, while the outlying districts have the lowest proportion of this population segment. Their populations, however, are aging rapidly and, in the near future, all regions will have a high proportion of older adults; by 2030, this figure will amount to 20% of the total population.

1.4 **Diversity.** The sociodemographic complexity of the City of São Paulo makes the challenges of sustaining a public health model capable of meeting multiple needs among different populations and territories even more difficult. The morbidity and mortality profile of the City of São Paulo reflects these disparities between regions. The premature mortality rate due to chronic noncommunicable diseases ranges from 385.89 per 100,000 population in São Miguel (southernmost zone) to 134.28 per 100,000 population [2] in Pinheiros (western zone), and the infant mortality rate in the same regions is between 14.48 per 1,000 live births and 4.23 per 1,000 live births [3], respectively. Mortality among the Afro descendant population is higher due to systemic arterial hypertension, diabetes mellitus, and cerebrovascular disease, both among minors and people over age 60 [3].

1.5 The Afro-descendant population is the largest user of public health services (70% versus 34% for whites) (National Health Survey 2019). However, they face barriers to access and care in the system. These include the lack of specialists prepared to meet their specific demands (Nuestro SP, 2022).

1.6 In terms of human resources in the health services, the Afro-descendant population is represented mostly in technical occupations (57%) compared to the white population

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[1] The City of São Paulo has an HDI of 0.805 (high), while about 20 districts in the city have a low HDI, the worst being Marsilac (0.701), Parrelheiros (0.747), and Lajeado (0.748). United Nations Development Program. Data based on the 2010 Census.

[2] Brazilian Institute of Geography and Statistics (IBGE) (2022 Census): about 40% of São Paulo's population self-identifies as black or brown and 22% are women.

(32%), and it is not well represented in more senior positions, occupying only 17.7% of managerial positions (Annual Report on Social Information (RAIS) 2022).

1.7 Women account for 70% of the workforce of the City of São Paulo's public health services and 37% of its public hospitals, but hold only 12% of managerial positions. In contrast, men occupy two thirds of managerial positions in the City of São Paulo's health services (RAIS, 2022). Moreover, Afro-descendant women account for barely one-third of the managerial positions held by women (RAIS 2022).

1.8 In all, 6.5% of the population of the City of São Paulo has some kind of disability. There are also an estimated 150,000 people in the city with autism [4]. In hospitals, persons with disabilities have reportedly experienced or witnessed harm due to their disabilities [5]. People with autism and their families need a comprehensive and flexible health care system that accommodates their particular barriers. LGBTQIA+ people are another group reporting difficulties in accessing health care services, especially because of the perceived lack of preparedness of administrative and medical staff to understand their specific needs. In all, 12% of LGBTQIA+ people said they felt less comfortable telling their doctors about their concerns or problems, compared to 9% of non-LGBTQIA+ people (Survey on Discrimination and Violence against the LGBTQIA+ Population, National Council of Justice (CNJ)).

1. The Unified Health System (SUS) in São Paulo: progress and challenges

1.9 **The SUS in the City of São Paulo** has its own public network with more than 1,000 health services, including primary care units, hospitals, emergency and urgent care services, diagnostic support services [6], and others. In addition, there are 36 state hospitals under its management[3] and around 150 contracted private services. The city is a regional and national leader in high-complexity services, and nearly 40% of its service offerings are used by nonresident patients.

1.10 **Recent progress in the area of health.** To meet the challenge of managing its complex health agenda, the City of São Paulo has received Bank support since 2019 through the ''Avança Saúde São Paulo Program'' (4641/OC-BR)[4] with the objective of expanding access to and improving the quality of health services, reducing regional inequities, enhancing the efficiency of the system, and strengthening the health care networks model. The program also boosted digital transformation in the area of health care.

1.11 The execution of Avança Saúde was exceptional, and was completed in June 2024, within the estimated five-year time frame. During this period, the São Paulo Municipal Health Department (Municipal Health Department) undertook the restructuring of the SUS in the city, starting with expanding access to and improving the quality of the primary health care network, the city's urgent and emergency services, and hospital care, among other services, in the most vulnerable regions.[5] Significant positive changes have been seen so far,[6] such as the 12.81% increase in primary health care coverage and the 14.45% reduction in preventable hospitalizations [7]. In addition, a reduction in unequal access to

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3 Painel da Saúde do Tribunal de Contas do Estado de São Paulo (TCESP). Accessed on 11 April 2024.

4 Eligibility date as of last disbursement (five years exactly, with no extension of the execution period).

5 In all, 114 health services were built, refurbished, expanded ,and equipped, and 655 hospital beds were added. By the end of the program, 340 primary health care units will be certified for quality, making it the largest accredited network in Latin America.

6 Optional link 7.

primary health care services has already been observed in the poorest regions, the focus of Avança Saúde's intervention. For example, in the regions of Jabaquara and Vila Maria-Vila Guilherme, the wait time for a medical appointment in the primary health care system was reduced by 80%, on average, decreasing from 23 days to 4 days, between 2019 and 2023 [8].

1.12 To support the expansion and improvement of physical network services, the Municipal Health Department launched a **digital transformation** process.[7] In 2020, investments in digital health were accelerated, clearing the way to create, in the space of several months, an electronic medical record integrated across the various health services of the City of São Paulo, with a user base of more than 18 million. A telemedicine platform was also created, which, in the early months of the pandemic, facilitated more than 300,000 telehealth consultations.[8] At the same time, the automated screening system and the Manchester Protocol were implemented,[9] which together reduced triage time by two thirds. The City of São Paulo continues to expand its telemedicine services, consolidating its digital health services.[10]

1.13 **New stages of SUS consolidation in the City of São Paulo.** As described in paragraphs **Error! Reference source not found.** through 1.12, the City of São Paulo has significantly expanded the health promotion and prevention services of the first operation with the Bank by improving, *inter alia*, access to and the quality of primary health care services (face-to-face and digital) and implementing programs to monitor patients with chronic conditions and patients of maternal and child health services. To continue the work of consolidating the health care networks into a comprehensive care network, and to leverage recent investments in primary health care, the City of São Paulo has requested support from the Bank to strengthen the system's higher levels of care through the restructuring and expansion of its own hospital network, thus strengthening the integrated care model and the Bank's programmatic continuity with the city.

1.14 **The São Paulo Municipal Hospital Network (SPMHN)** is comprised of 25 of its own hospitals.[11] Of these, 12 are managed directly by the Municipal Health Department and 13 are managed under contracts with social health organizations of the private sector.[12] Fourteen hospitals are large facilities (151 to 500 beds) and 11 are medium-sized (51 to 150 beds).[13] According to data released by the National Register of Health Care Facilities (CNES) in December 2023, the network has approximately 4,379 beds, of which 2,207 are managed directly by the Municipal Health Department and 2,172 by social health organizations. In 2022, the network provided more than 9.5 million health care services (including consultations, exams, and surgeries). In all, more than half of these

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7 Optional link 6.

8 As of March 2024, two million medical appointments have already been provided.

9 See Portaria Secretaria Municipal da Saúde – SMS No. 82 de 13 de marco de 2024.

10 The use of digital health services was also expanded for primary health care services, emergency services, chronic disease monitoring, and maternal and child care, among others, with positive results in the reduction of wait times and significant expansion of access: link.

11 See optional link 2 (table 1).

12 For more information on Municipal Health Department contracts with the private sector, see the website of the São Paulo Municipal Government.

13 See optional link 2 for more details on the hospitals in the network.

establishments are located in the city's southern and eastern zones, regions with the highest population density and the highest proportion of vulnerable population.

1.15 **SPMHN hospitals under direct management and the sociodemographic profile of the regions in which they are located.** Of the 12 directly managed hospitals, three are in the east (2.3 million inhabitants), five in the southeast (2.6 million inhabitants), two in the north (2.2 million inhabitants), one in the south (2.7 million inhabitants), and one in the west (1 million inhabitants). Hospitals directly serve the region's resident population, but can serve as a referral point for the entire city when they offer more specialized services. Of these regions, 70% have an HDI lower than the municipal HDI. In those areas where the average HDI is slightly higher than that of the city, the data show profound inequalities between the different districts, especially those in the vicinity of these hospitals. The Regional Allocation of Public Expenditure Index for the City of São Paulo shows that 70% of hospitals are located in high and medium priority regions, corroborated by the high percentage of exclusive SUS users (who cannot afford private health insurance) in all regions where SPMHN hospitals under direct management are located (all above 50% and up to 70% in some regions). These regions are a social priority for public investment, especially to reduce intraregional inequalities and promote a fairer city.

1.16 **Main problems of SPMHN hospitals under direct management.** The Municipal Health Department analyzed these 12 hospitals and prepared a situational diagnostic assessment (optional link 2) comprised of four axes: (i) **infrastructure**—inadequacy and insufficiency of supply; (ii) **clinical and nonclinical management**;[14] (iii) **technology**; and (iv) **management model,** which will be summarized below. As confirmed by the diagnostic assessment, these problems are critical and their resolution is considered a priority for improving the health conditions of the population of the City of São Paulo, especially in terms of expanding access to and improving the quality of health services by consolidating health care networks in the most vulnerable regions of the city.

1.17 **Axis 1: Deterioration of infrastructure and noncompliance with current standards.** None of the units meet the health standards of the Brazilian Health Regulatory Agency (ANVISA) and none of the buildings meet current accessibility standards [9]. Small and improvised care spaces lead to overcrowding and increase the risk of infections [10]. Environments with poor ventilation and high temperatures, which are unhealthy for patients and workers, were also identified. In terms of environmental sustainability, the age of the buildings (on average, 40 years), low energy and water efficiency, as well as the improper management of solid medical waste, are of particular note. An analysis of these units' technology infrastructure was also conducted, and all of them were found to have gaps in medical-hospital equipment (insufficiency and obsolescence).

1.18 **Deficit in the supply of beds in the regions served by SPMHN hospitals under direct management.** While in the more consolidated regions of the City of São Paulo the ratio is almost five (public) beds per 1,000 population, in the regions where these hospitals are located, the ratio varies between 0.16 (west) and 0.79 (southeast) per 1,000 population, far from the Brazilian Health Ministry standard of 2.5 beds per 1,000 population. The demand for hospitalization is expected to increase as the population ages, making it all

[14] Nonclinical services include infrastructure and equipment maintenance, transportation, cleaning, waste management, and administration, which are essential to determining hospital quality and efficiency.

the more important to balance hospital supply among the regions, especially in the most vulnerable ones.

1.19 **Axis 2: Weaknesses in clinical and nonclinical management of SPMHN hospitals under direct management.** Based on data analysis, interviews, and a review of documents, standards, and specialized literature, a full diagnostic assessment was prepared (optional link 5) on the management of these units, the most important topics being: (i) suboptimal organization of processes and patient flows, leading to delays, backlogs in care, and inefficiencies; (ii) inadequate systems and instruments for monitoring production indicators and, particularly, efficiency indicators; (iii) weaknesses in pharmaceutical and medical consumables management and the cost control system; and (iv) fragilities in quality management.

1.20 **Axis 3: Digital transformation of hospital care.** In 2015, the Municipal Health Department began implementing a new Hospital Management Information System (SGHx) in its direct network,[15] which features, among other modules, the electronic medical record. The SGHx is a modular system, which can be implemented and developed in phases, facilitating its adoption by users. The system has modules for patient, hospitalization, outpatient, emergency, surgery, and prescriptions management. This implementation modernized the administration of SPMHN hospitals under direct management, migrating paper records to an integrated electronic medical record for all hospitals in this network, digitizing a significant part of its information, and streamlining patient care.

1.21 **The need to continue integrating information systems to ensure efficiency and improve decision making.** Avança Saúde made strides in the implementation of a supply system that integrates information from the central warehouse with the local warehouses of around 1,000 health care facilities. However, intrahospital supply management is still lagging far behind. Results-oriented hospital management requires an integrated vision of the logistics network within hospitals, which is complex and requires the interoperability of different subsystems such as supplies (medical and administrative), as well as pharmacy supplies, sterilization services, laboratory services, imaging services, infrastructure and equipment maintenance, and hospitality, among others.

1.22 Currently, these activities are scattered throughout the SPMHN hospitals under direct management, with little control over stock inventories and the status of the internal supply chain, and, above all, they are separated from clinical systems, causing inefficiencies. Studies show that logistics activities account for 30% to 46% of hospital costs [11] and that, in hospitals that do not have integrated logistics and clinical management systems, 10% of nursing staff time is dedicated to administrative activities. The literature [12] shows that more than half of the costs associated with inefficient hospital supply chain management can be eliminated by integrating these systems with each other and with clinical systems.

1.23 **Axis 4. Management models.** The Municipal Health Department has limited capacity to monitor the efficiency indicators of the SPMHN hospitals under direct management, and this management is limited to adverse events, when the situation is already a crisis. These

[15] The system adopted by the Municipal Health Department, SGHx, is a version of AGHUx adapted to the needs of the City of São Paulo, a hospital management system created by Empresa Brasileira de Serviços Hospitalares (Ebserh), which reports to the Ministry of Health and is responsible for the management of university hospitals.

institutional weaknesses in hospital management are also reflected in the units managed by social health organizations. Studies indicate that the Municipal Health Department's capacity for effective performance monitoring is still developing, considering the increase in the renegotiation of contract targets, as there are no negative consequences or corrective actions for performance below expectations [13]. This corroborates the need to strengthen the management competencies of the Municipal Health Department and to develop instruments and mechanisms to support the Ministry's role as the lead agency of this extensive hospital network.

1.24 **Public-private partnership (PPP).** The Municipal Health Department is also currently analyzing the feasibility of innovating the management model of SPMHN hospitals under direct management, moving from one entirely managed by the city to a mixed model, in partnership with the private sector. Based on a strategic analysis, the São Paulo Municipal Government has determined that the most beneficial model for partnering with the private sector as being collaboration in managing the operation and maintenance of hospital infrastructure (gray coat) and clinical support services, such as laboratories, imaging, and others (green coat). Since the clinical staff (white coat) of these hospitals is comprised primarily of city employees hired through competitive public recruitment processes, and because the Municipal Health Department has ample experience in implementing works in the health field, these elements will not be included in the partnership with the with the private sector. Conversely, the volume of resources allocated to gray- and green-coat activities at these hospitals is significant and thus entail a high likelihood of attracting market interest. These operating costs are borne by the city and are not part of the program's budget.

2. Program strategy

1.25 **Policy options and strategy of the MSN for further consolidation of health care networks.** Under the Multiyear Government Action Plan (2022-2025) and the Municipal Health Plan (2022-2025) the City of São Paulo requested Bank support to further consolidate the health care networks initiated with operation 4641/OC-BR, as explained in paragraph 1.11. Since the City of São Paulo has already invested and achieved enormous successes in primary health care, investments must now be made in the SPMHN hospitals under direct management to continue integrating and consolidating the health care networks (see Theory of change).

1.26 For this stage, and based on current evidence [14], the City of São Paulo will continue to strengthen this model of care based on integrated service networks that promote continuous, comprehensive, and responsive patient care, with robust coordination between levels of care and with a focus on primary health care.

1.27 Based on these references and the analysis described in paragraphs 1.9 through 1.13, the City of São Paulo proposes an action strategy based on the four axes set out in the situational diagnostic, targeting SPMHN hospitals under direct management: (i) improvement, expansion, and modernization of hospital and technology infrastructure; (ii) strengthening of clinical and nonclinical management of these units; (iii) support for the intensive use of technology in the care and management areas; and (iv) development of alternative models to improve the hospital network's performance.

1.28 **Improvement, expansion, and modernization of hospital and technology infrastructure.** In order for the hospitals to meet all the standards required to ensure the safety and excellence of hospital buildings, the City of São Paulo will undertake, within the

scope of this operation, to upgrade the infrastructure of 9 of the 12 SPMHN hospitals[16] under direct management.[17]

1.29 Four of these nine hospitals will be financed by the Bank,[18] and the remaining five hospitals will be financed with counterpart funds.[19] In addition, three of the four hospitals will undergo expansion works. Socioenvironmental studies were prepared for these four hospitals.

1.30 The interventions include upgrades to restore hospital facilities; renovations to adapt them to health, accessibility, and fire safety standards; adaptation of electrical and hydraulic structures; and heating and air conditioning to improve patient flow and boost capacity, efficiency, and safety for patients and workers. In addition, the entire technology infrastructure will be expanded and renovated, ensuring greater access to and the quality and efficiency of services.

1.31 **Strengthening hospital clinical and nonclinical management.** To support the consolidation of the integrated network of care model, in which hospitals play a strategic role in the "longitudinality" of care and, therefore, serve as important links in the integration of services, this operation will promote a series of strategies and measures to strengthen the management of SPMHN hospitals under direct management at two levels.

1.32 The first level will strengthen macro management, expanding the capacities of the Municipal Health Department as the lead agency of SPMHN hospitals under direct management. The program will support the definition of quality, production, and efficiency standards for hospitals, which will be monitored through the implementation of integrated management dashboards. Network studies will also be conducted to adjust the profiles of each hospital in order to generate more efficiency and greater adherence to the needs of the populations and health care networks in their respective regions.

1.33 The second level of intervention refers to intrahospital management, e.g., through the reorganization of care flows, the definition and full implementation of clinical protocols, and the adoption of new clinical and managerial monitoring systems. The program will also support the modernization and expansion of the costing system to improve service efficiency and strengthen decision-making. To enhance the quality of services, all SPMHN hospitals under direct management will be certified, as well as five laboratories and seven urgent care units, consolidating the strategy of offering top quality services throughout the network, which was initiated in operation 4641/OC-BR.

1.34 It will be essential to strengthen the competencies of the direct service managers and coordinators of the Municipal Health Department in their role as regulators and governors of the city's health policy. Accordingly, training will be provided to managers and professionals on various topics, including executive management and leadership. Training for women, especially Afro-descendant women, will be highlighted to promote the career development of these professionals. Hospital integration in health networks will also be

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[16] The three remaining City of São Paulo hospitals will also carry out the same interventions with their own resources and are not part of the counterpart of this operation. Thus, 100% of SPMHN hospitals under direct management will have their infrastructure renovated.

[17] Required link 3.

[18] Hospital Municipal Tide Setúbal; H.M. Ignacio P. de Gouvea; H.M. Mario Degni; and H.M. Alexandre Zaio.

[19] Hospital Municipal Alípio Correa Netto; H.M. Waldomiro de Paula; H.M. Dr. José Soares Hungria; H.M. Arthur Ribeiro Saboya; and H.M. Benedito Montenegro.

strengthened through shared training between the different service levels (including health care, emergency services, and hospitals) on the main health issues, organized along lines of care (diabetes, hypertension, chronic respiratory illnesses, and maternal and child), which will strengthen the network's integration of care and services.

1.35 **Support for the intensive use of technology in care and management.** As mentioned in paragraph 1.20, the SPMHN hospitals under direct management already have a system to manage patients' electronic medical records, and it is already integrated with the other services of the network. However, as noted in paragraphs 1.21 and 1.22, increasing the efficiency and rationalization of resource use requires logistics systems to be integrated with each other and with clinical systems. To achieve this objective, a specialized firm will be hired to redesign the logistics flows and to provide a fully integrated system, following national [15] and international [16] best practices. This innovation provides for significant automation of the logistics operation processes which, together with the other management investments described in the above paragraphs, will represent a leap in efficiency and quality of the SPMHN facilities under direct management.

1.36 These hospitals are also moving toward becoming digital hospitals, which are defined as those that maximize the use of information technologies in administrative, financial, and clinical processes, all integrated with each other. The efforts being undertaken in this operation will pave the way for the complete digital transformation of this network.

1.37 Regarding the possibility of using the PPP model to manage the SPMHN's gray- and green-coat operations, the Bank's PPP team has supported the City of São Paulo in the preliminary feasibility and sustainability studies of the model, to be developed by SP Parceiras.[20] If the study shows feasibility, SP Parceiras or another institution identified by the City of São Paulo will prepare the PPP structuring project, to be financed by the program. The IDB Invest team has been involved in this dialogue with the Municipal Government since the project's conceptualization and has played a role in the progress made on the prefeasibility studies. Once the feasibility of the PPP has been confirmed, the IDB Invest team will support the process of coordination with the private sector. As regards IDB Lab's participation, future collaborations are expected, especially in coordination with Innova HC, Latin America's largest health innovation hub, headquartered in the City of São Paulo, which already collaborates with IDB and IDB Invest.

1.38 **ProSocial conditional credit line for investment projects.** To address these challenges, the IDB approved the CCLIP for the Social Spending Modernization Program in Brazil (ProSocial) (BR-O0009),[21] under Multisector Modality II, in accordance with the CCLIP policy (GN-2246-13), with the Department of International Affairs and Development (SEAID) of the Ministry of Planning and Budget as the liaison entity.[22] The general objective of ProSocial is to make the administration of social spending in Brazil more efficient. Its specific objectives are to: (i) strengthen sector-level capacities in operational

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20 This is a semipublic company that is part of the indirect administration of the City of São Paulo, whose objective includes supporting the direct administration bodies in the formulation and implementation of PPP projects. For more details, see SP Parceiras.

21 The ProSocial CCLIP (BR-O0009) was approved by Resolution DE-159/20 on 16 December 2020.

22 The CCLIP Agreement, signed with the Federative Republic of Brazil on 28 December 2020, was amended on 30 May 2023, due to the change of the liaison institution from the Department of International Affairs (SEAIN) to the Department of International Affairs and Development (SEAID) under Decree 11.398/2023.

management; (ii) strengthen the strategic management capacities of sector institutions; and (iii) improve the delivery of high-quality social services. The CCLIP, with up to US$1.5 billion to be allocated over a 10-year utilization period, has three resource allocation channels and is structured in five sectors. One of its channels is subnational,[23] in which the borrowers are the individual states, the Federal District, and municípios with borrowing capacity consistent with current federal government rules for programs aligned with one or more of the CCLIP's sectors. The sectors are: (i) early childhood development; (ii) education (primary and secondary); (iii) health; (iv) labor markets; and (v) pension systems. This will be the tenth individual operation under the CCLIP, the fourth in the health sector, and the second in the municipal health sector.[24]

1.39 Three operations have been approved under the CCLIP in the health sector, all with subnational entities, one of which is in the initial execution stage (5639/OC-BR – State of Sergipe) and began receiving disbursements in June 2024; the other two operations (5797/OC-BR – Município of Ourinhos and 5870/OC-BR – State of Bahia) are at the signature and eligibility conditions stage, so it is not yet possible to report on the achievement of partial results. See optional link 11 for more information on the general status of operations under the CCLIP.

1.40 The investments of this program aim to address the four axes of the problem by: (i) expanding and improving the infrastructure of hospital services, enhancing their efficiency, and consolidating an organized, cost-effective health care network service delivery model; (ii) making investments in digital health, particularly for the integration of intrahospital logistics systems and clinical systems (including the electronic medical record) and the implementation of digital hospital monitoring dashboards to support the objective of strengthening the operational capacities of the health sector, through the digital transformation of service delivery and management based on system integration and the use of data to enhance planning capabilities; (iii) implementing quality programs; and (iv) strengthening management capacity of the Municipal Health Department. All of these interventions are linked to the CCLIP's specific objective of improving the delivery of social services, optimizing them, and improving their performance. For more information, see the ProSocial Conceptual Framework.

1.41 **Lessons learned.** The program has benefited from the lessons learned from other operations in the Bank's health portfolio in Brazil, including program 4641/OC-BR: (i) quality certification is an effective means of improving the efficiency and transparency of the health care services considered in activity (iii) of Subcomponent 2.1; (ii) the digital transformation of health care is based on an integrated vision between care and technology, generating continuous learning for teams and users, as applied in activity (ii) of Subcomponent 2.1. The program has also benefited from lessons learned from the Expansion and Strengthening of Specialized Health Care in the State of Ceará (2137/OC-BR) and Strengthening Health Management in the State of São Paulo (3051/OC-BR) programs: (iii) addressing integrated networks from primary health care improves efficiencies in a resource-constrained context; considered for activities (iv) of Subcomponent 2.1, and (ii) of Subcomponent 2.2.

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[23] The other channels are: (i) federal, with the Federative Republic of Brazil as borrower; and (ii) national or regional development banks, which on-lend to subnational entities.

[24] Of the education sector operations, the Program Education for the Future for the State of Paraná (5402/OC-BR) was eligible in November 2022. Partial results have been recorded so far, such as a rise in the frequency rate of secondary education and a higher percentage of students with access to an online learning platform.

1.42 **Programmatic approach of the IDB in the health sector.** The work of the IDB in the area of health in Brazil, which includes the City of São Paulo, is based on two main pillars: one, provided by the ProSocial CCLIP, focused on the continuous improvement of health services and the search for maximum efficiency; and the other, which reinforces and operationalizes the first line of action, is the integral primary health care approach, which defines the health care network model as the optimal one for organizing services in the territory (optional link 9). Since 2019, this strategy with the City of São Paulo has consistently aimed to strengthen the components of the health care network, including the expansion and improvement of the quality of primary health care and emergency services and, especially, the strong push for the sector's digital transformation. This support has yielded notable achievements, such as improved access to primary health care and a reduction in preventable hospitalizations (paragraph 1.11). The current program will continue to build on these results, strengthening the accessibility and quality of the hospital network and promoting its integration with the other levels of care of the health care networks. The program will include technical studies of the health care networks in the City of São Paulo, with resources from a technical cooperation operation in preparation, which will strengthen programmatic integration with the City of São Paulo. This operation also reinforces the collaboration of the Bank's social area with the City of São Paulo, acting synergistically with the "City of São Paulo Can do Better Education Program" (5873/OC-BR), as they focus on reducing inequalities in access to and the quality of health and education services in the most vulnerable areas of the City of São Paulo. This program will focus its efforts on the most socially vulnerable regions (paragraph 1.15). The interventions supported by this program reflect the Bank's programmatic continuity with the City of São Paulo and can be expanded and scaled up to other districts and services in the future.[25] This expansion would follow the same strategy and adhere to the same criteria used to prioritize the current territories.

1.43 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and aligns with the objectives of: (i) reducing poverty and inequality, given that it will expand access and improve the quality of health services for the most vulnerable population in the state; and (ii) addressing climate change, since it will strengthen the energy efficiency and resilience of buildings within the scope of the program. The program is also aligned with the following operational focus areas: (i) gender equality and inclusion of diverse population groups; (ii) institutional capacity, rule of law, and citizen security; (iii) social protection and human capital development; and (iv) sustainable, resilient, and inclusive infrastructure.

1.44 The program aligns with the Brazil and IDB Group Strategic Agreement. Country Strategy 2024-2027 (GN-3243-3), as it addresses the priority area of "advancing a new social agenda to promote prosperity and inclusion," and with the strategic objective of "improv[ing] the quality of public expenditure in health and education," as it contributes to the expected outcome of "strengthen[ing] primary health care." The program is also consistent with the Health Sector Framework Document (GN-2735-12), as it helps improve physical and technological health infrastructure and strengthen the institutional capacity of the City of São Paulo; and with the Employment Action Framework with a Gender

[25] For example, there are plans to adopt the quality and production indicators, as well as the monitoring systems of the directly managed hospitals for the entire network (expanding to more than 15 Município of São Paulo hospitals managed by social health organizations). The PPP model is also expected to be scaled up to other services in the network.

Perspective (GN-3057), as it includes analysis, interventions, and indicators related to the talent pillar as a way to improve primary health care coverage and quality.

1.45 **Gender equality and diversity.** To facilitate accessibility for persons with disabilities, the program will not only consider the design of universal infrastructure, but will also finance a feasibility study for the adaptation of hospital infrastructure, the design of waiting rooms and care rooms to meet these needs, and the training of health personnel to care for persons with disabilities, especially those with autism spectrum disorder. A study on the barriers faced by LGBTQIA+ people in accessing health care will be conducted to facilitate their access to this care. The findings of the study will be used as input for an action plan to facilitate LGBTQIA+ health care and to improve the training plan currently in effect in the City of São Paulo. A training program to promote women's leadership will be implemented to increase the proportion of women in decision-making positions at hospitals, with a specific quota for Afro-descendant women, who are underrepresented.

1.46 **Alignment with the Paris Agreement.** This operation has been reviewed using the Joint Assessment Framework of the Multilateral Development Banks for Paris Alignment and the IDB Group Paris Alignment Implementation Approach (GN-3142-1); it is deemed to be: (i) aligned with the Paris Agreement's adaptation objective; and (ii) and universally aligned with the Agreement's mitigation objective.

1.47 **Climate finance.** The total amount of the program is US$410.6 million. Based on the elements considered in the climate change annex (optional link 3), climate financing for the program is estimated at 71.39% of the resources provided by the IDB to finance the operation, or US$141.5 million. These resources will be used for the design, renovation, and expansion of hospitals. The projects will include sustainability measures and will achieve LEED (Leadership in Energy and Environmental Design) certification.[26] Measures include resilient and low-carbon infrastructure criteria, the use of energy and water efficient equipment, and the use of renewable energy.

B. Objectives, components, and cost

1.48 The operation's general objective is to improve the health conditions of the population of the City of São Paulo by expanding access to and improving the quality of health services, consolidating the health care networks in the city's most vulnerable regions. Its specific objectives are to: (i) improve access to hospital services at hospitals of the SPMHN under direct management; (ii) improve the quality of health services in the City of São Paulo; (iii) boost the efficiency of SPMHN hospitals under direct management; and (iv) strengthen the integration of SPMHN hospitals under direct management with the other levels of care.

1.49 **Component 1: Modernization and expansion of the hospital network's installed capacity (IDB: US$141.5 million; Local: US$157.78 million).** This component will expand access to and improve the quality of hospital care by upgrading and expanding the SPMHN's physical network under direct management, considering universal design and sustainable criteria equivalent to LEED certification. It will finance: (i) renovation and expansion of nine hospitals;[27] (ii) procurement of hospital medical equipment for the same

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[26] LEED rating system.

[27] Municipal Hospital Tide Setúbal; M.H. Ignacio Gouvea; M.H. Mario Degni; M.H. Alexandre Zaio; M.H. Alípio Netto; M.H. Waldomiro de Paula; M.H. Mario Silva; M.H. Arthur Saboya; and M.H Benedito Montenegro. The investments will result in the addition of 984 new beds to the hospital structure. Integrated contracting will be adopted for engineering designs and hospital works.

nine hospitals;[28] and (iii) a feasibility study for the adaptation of hospital infrastructure for the care of persons with disabilities, especially those with autism spectrum disorder.[29]

1.50 **Component 2: Support for service quality improvement and innovation promotion (IDB: US$56.72 million; Local: US$46.1 million).** This component will enhance the performance of SPMHN hospitals under direct management, as well as expand the institutional, strategic, and managerial capabilities of the Municipal Health Department as the lead agency of this network.

1.51 **Subcomponent 2.1. Support for service quality improvement and innovation promotion (IDB: US$52.37 million; Local: US$41.15 million).** This subcomponent will finance: (i) specialized services for process and flow optimization at the 12 SPMHN hospitals under direct management; (ii) intrahospital logistics support systems integrated with clinical systems in all 12 of these hospitals; (iii) quality certification of the 12 hospitals, 5 municipal laboratories, and 7 urgent care units;[30] (iv) training in clinical protocols and other topics; (v) a study to identify the main barriers LGBTQIA+ people face in accessing health services and to design an action plan to mitigate them; (vi) training for women employees of the city's health network to occupy leadership positions in the health system, with a specific quota for Afro-descendant women; and (vii) training of professionals of the city's health network in the care of persons with disabilities, especially those with autism spectrum disorder.

1.52 **Subcomponent 2.2. Instruments to expand the institutional capacities of the Municipal Health Department (IDB US$4.2 million; Local US$1.9 million).** This subcomponent will finance: (i) specialized services to support the definition of quality, production, and efficiency indicators and standards for hospitals; (ii) a system for monitoring the hospital indicator dashboard; (iii) specialized services to support the development of clinical protocols; (iv) studies to assist in defining the care profile of each hospital under direct management in the network approach; (v) management training for administrative professionals; and (vi) a costing system.

1.53 **Subcomponent 2.3. Studies on alternative models of direct network hospital management (IDB: US$150,000; Local: US$3.05 million).** This subcomponent will finance: (i) specialized services to develop results-oriented management mechanisms; and (ii) a feasibility study of the PPP model to manage nonclinical services at the aforementioned 12 hospitals.

1.54 **Component 3. Program administration and management (IDB: US$7.08 million; Local US$1.42 million).** The Municipal Health Department will be supported in program execution and in the monitoring of the expected results. This component will finance the following activities, among others: (i) program management support services (paragraph 3.4); (ii) specialized technical services;[31] (iii) midterm and final program impact evaluations; and (iv) audit services.

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[28] Idem.

[29] The Municipal Health Department will analyze the study's findings and recommendations and incorporate them into the hospital reform projects.

[30] List of hospitals on page 9 of optional link 2. Urgent care units and laboratories will be defined by certification readiness level criteria, which will be verified with Municipal Health Department diagnostics.

[31] These include technical consultancies in areas such as quality and hospital performance.

C. Key results indicators

1.55 The key impact indicators linked to the general objective include: (i) premature mortality rate (30 to 59 years) due to cerebrovascular accidents; (ii) rate of hospital admissions for conditions that respond to the primary level of care, and (iii) hospital mortality rate. Results indicators linked to the specific objectives include: (i) average monthly number of patients admitted to hospitals benefiting from works, linked to specific objective 1; (ii) percentage of directly managed hospitals with National Accreditation Organization (ONA) quality certification, linked to specific objective 2; (iii) bed turnover rate, associated with specific objective 3; and (iv) percentage of professionals certified in integrated network training, linked to specific objective 4.

1.56 **Economic analysis.** Based on international and Brazil-specific evidence applied to production and cost data at the hospitals targeted by the operation, the economic analysis (optional link 1) models two domains of benefits derived from the expected impacts of the program's investments, including: (i) monetization of the reduced disease burden attributable to closing gaps in access and hospital coverage with enhanced quality of care; and (ii) estimated efficiency gains (savings) due to the optimization of hospital production resulting from the implementation of an enhanced management model that reinforces quality care, interoperability with the SGHx, and efficient water and energy consumption. In the baseline scenario, with conservative assumptions in terms of the progressive nature and impact of the interventions over a 10-year horizon and using a discount rate of 3%, the range of the benefit/cost ratio is 2.12 and the net present value (NPV) is US$1.182 billion. Furthermore, sensitivity analyses corroborate the operation's return on investment, and even in the least favorable scenario (12% discount rate, low benefit realization) they show a benefit/cost ratio above one (1.43) and a positive NPV (US$290 million).

1.57 **Beneficiaries.** The population of the City of São Paulo will benefit directly from the program, especially the 53% that rely exclusively on the SUS, which is equivalent to some 6.07 million people according to data from the National Health Agency in 2023.[32] Nearly 3.1 million of them are women, 2.7 million are Afro-descendants, and 394,000 are persons with disabilities.[33]

II. Financing Structure and Main Risks

A. Financing instrument

2.1 This operation is structured as a specific investment loan as it is a sector program made up of specific projects whose scope, required resources, and feasibility have already been estimated, with components that cannot be divided without affecting the operation's logic. It will have a total cost of US$410.6 million, of which US$205.3 million will be financed with the Bank's Ordinary Capital resources and US$205.3 million with local counterpart funds.

Table 2.1. Estimated program costs (US$)

[32] Estimativa da população SUS dependente 2023.

[33] Percentage population data based on IBGE information for the city: Afro-descendants and women (PNAD-C 4th quarter of 2023); for persons with disabilities, data from the National Health Survey were used.

Components	IDB	Local counterpart	Total	%
Component 1. Modernization and expansion of the hospital network's installed capacity	**141,500,000**	**157,780,000**	**299,280,000**	**72.89**
Civil works	141,500,000	124,497,396	265,977,396	64.78
Procurement of hospital equipment	0	33,282,604	33,282,604	8.11
Component 2. Support for service quality improvement and innovation promotion	**56,720,000**	**46,100,000**	**102,820,000**	**25.04**
Subcomponent 2.1. Support for service quality improvement and innovation promotion	52,370,000	41,150,000	92,520,000	22.78
Systems for improving hospital flows, processes, and logistics	51,070,000	40,650,000	91,720,000	22.34
Certifications and trainings	1,150,000	450,000	1,600,000	0.39
Energy efficiency control system	150,000	50,000	200,000	0.05
Subcomponent 2.2. Instruments to expand the institutional capacities of the Municipal Health Department	4,200,000	1,900,000	6,100,000	1.49
Studies, systems, training, and services oriented to Municipal Health Department management	4,200,000	1,900,000	6,100,000	1.49
Subcomponent 2.3. Studies on alternative models of direct network hospital management	150,000	3,050,000	3,200,000	0.78
Structuring of the hospital care PPP	0	3,000,000	3,000,000	0.73
Feasibility study for the implementation of a management system through contracts between the Municipal Health Department and hospitals	150,000	50,000	200,000	0.05
Component 3. Program administration and management	**7,080,000**	**1,420,000**	**8,500,000**	**2.07**
Management support	6,780,000	1,120,000	7,900,000	1.92
Program evaluation	300,000	300,000	600,000	0.15
Total	**205,300,000**	**205,300,000**	**410,600,000**	**100**

* Amounts within each component of the cost table are indicative.

2.2 **Disbursement schedule.** The planned disbursement period is five years. This estimate is based on (i) the average estimated time frame for executing the activities to be financed; (ii) the institutional capacity of the Municipal Health Department, based on the findings of the institutional capacity assessment conducted using the Institutional Capacity Assessment Platform (ICAP); and (iii) the program's complementarity with other planned City of São Paulo investments in health, as set out in its 2022-2025 Multiyear Government Action Plan and Municipal Health Plan.

Table 2.2 Projected disbursements (US$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	23,512,600	44,865,000	55,640,000	48,113,654	33,067,000	205,300,000
Local counterpart	23,919,400	40,038,250	49,918,250	50,089,996	41,435,850	205,300,000
Total	**47,432,000**	**84,903,250**	**105,558,250**	**98,203,650**	**74,502,850**	**410,600,000**
%	12%	21%	26%	24%	18%	100%

B. Environmental and social safeguard risks

2.3 Under the Bank's Environment and Social Policy Framework, and in accordance with the results of the due diligence process, the program has been classified under Category "B,"

because its activities may cause temporary adverse environmental and social impacts associated with the renovation and expansion of four hospitals—such as noise, vibrations, dust, increased vehicle and heavy machinery traffic, construction waste, occupational health and safety impacts, and community health and safety impacts. These impacts will be managed through the well-known environmental and social management measures and programs presented in the operation's environmental and social management plan (ESMP), as well as in the stakeholder engagement plan. The eligibility criteria established for the operation exclude Category "A" activities or projects involving involuntary displacement and expropriation, significant adverse impacts on traditional communities, conversion or degradation of critical habitats, significant and irreversible environmental impacts on natural habitats and ecosystem services, degradation of relevant sociocultural assets and values, or projects located in disaster risk areas.

2.4 The Bank's environmental and social risk rating is "substantial" because, during the construction of the four hospitals, the projects may entail a temporary interruption in the supply of some essential health services to the population, as well as a temporary reduction in the number of hospital beds available. Renovation works can also pose health risks (physical and mental) and safety risks to hospital users and employees. If the impacts of the works are not adequately mitigated or lead to a prolonged interruption of health services, contextual risks of conflict and sociopolitical opposition to the program may arise. These risks will be mitigated through the implementation of the environmental and health and safety control programs established in the ESMP, as well as through the implementation of the firm's communication and grievance management programs set out in the stakeholder engagement plan.

2.5 The natural disaster and climate change risk rating is "high" because of moderate threat levels of drought due to the effects of climate change, changes in precipitation patterns caused by climate change, and danger of water shortages. Although the estimate of the criticality and vulnerability of the program's infrastructure component is high due to the physical characteristics of the hospitals and the potential negative impact on essential services, the topography and geology are favorable, and the levels of risk exacerbation are low. The program's environmental and social assessment included a qualitative disaster risk assessment, which has identified the additional risk of heat waves. Risks will be mitigated by implementing ESMP and environmental and social management system (ESMS) measures that address disaster risk management and climate change adaptation, for instance, through building certification, such as LEED or similar certifications, using solutions and strategies that promote energy efficiency and efficient water use, since efficient air conditioning and lighting systems reduce the need for electricity, relieving pressure on water resources, especially during heat waves. As already mentioned, these measures mitigate the effects of adverse climate events and disasters in the program area. Likewise, the use of environmentally friendly materials strengthens operational resilience and fosters the creation of healthy external and internal environments, including vegetation that contributes to the balance of the urban microclimate by providing shade, reducing the temperature through evapotranspiration, and improving air quality by absorbing pollutants.

2.6 The social and environmental studies were disclosed on the IDB website prior to the analysis mission and the consultation process. The virtual consultation was open to the public and lasted two weeks, while face-to-face consultations were held at each of the four hospitals to receive program works. A significant number of employees and representatives of the hospital management councils were in attendance. All participants

agreed with the program's objectives and works. The main considerations raised during the face-to-face consultations focused on the following: method of construction and its impact on the comfort of patients, their friends and family members, and employees; thermal comfort; operation of hospitals during the construction phase; involvement of management and communication councils during interventions; and interference with local traffic. The virtual consultation also raised questions about neighborhood impacts, accessibility measures, and occupational health and safety. All questions were answered in a timely manner, documented in the consultation report, and addressed through the management measures contained in the updated socioenvironmental documents. The final versions of the studies, including the consultation report, were published on the IDB website.

C. Fiduciary risks

2.7 The institutional assessment of program fiduciary management was prepared on the basis of: (i) the current fiduciary context of the country; (ii) an assessment of the main fiduciary risks; (iii) the findings of the institutional capacity assessment; and (iv) joint work meetings of the IDB program team with the executing agency and other authorities of the City of São Paulo. As a result, the risk was found to be low, given that Municipal Health Department has sufficient institutional capacity and proven successful experience in project management accumulated throughout the implementation of the first phase of Avança Saúde (See Annex III).

D. Other risks and key issues

2.8 Two medium-high risks were identified. One was in the institutional environment category: If hospital technical teams create resistance to management and organizational culture changes, the planned management improvement activities may be jeopardized, delaying the completion of Component 2 outputs. To mitigate this risk, it is proposed that a change management plan be developed and implemented that includes awareness-raising, communication, and training activities for all hospital professionals. The second risk is in the political environment category: If there is a change of government after January 2025, the new administration may have other priorities, and the program may undergo changes in the design and prioritization of some actions over others, which will cause delays of at least three months in the signing of the contract. To mitigate this second risk, it was proposed that an action plan be developed with the transition team to present the program and explain its strategies, based on diagnostic assessments and in line with the government's planning instruments, to minimize potential changes. Digital health systems also face significant cybersecurity risks due to the high criticality of care services and the value of the medical data that they manage. Cyberattacks can compromise the availability, integrity, and confidentiality of data, affecting patient care and causing economic and reputational damage. It is therefore crucial to implement preventive and responsive measures to protect these systems and thereby ensure the security of medical data. This risk will be mitigated through a rigorous review of the terms of reference for the procurement of all information systems, to be conducted by the Bank's digital health specialists. Brazil also has specific legislation in place, i.e., the General Data Protection Law (Law 13,709/2018), the prerogatives and principles of which are already observed in all information systems procurement in the country.

2.9 **Sustainability.** As noted in paragraph 1.2, the fiscal situation of the City of São Paulo is good. The investments planned under the program are backed by government planning instruments and their maintenance will be ensured through the inclusion of funding in the

annual budget. Moreover, before launching any of the infrastructure bidding processes, the Municipal Health Department will inform the Finance Department and seek its prior authorization for these investments if they will have a financial impact on current expenditures. Expenditures involving additional human resources due to the expansion of hospital services are already planned in the Multiyear Government Action Plan and in the Municipal Health Plan. The City of São Paulo has specialized staff available, since it is the largest training and employment center in the country's health sector. The City of São Paulo agrees to: (i) properly maintain the works and equipment included in the program, in accordance with generally accepted technical standards; and (ii) before the end of the first quarter of each year, submit a report to the Bank on the status of the operation and maintenance of program works and equipment, beginning in the year following completion of the first set of works under the program, and for the duration of the original disbursement period plus any extensions thereof.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower, guarantor, and executing agency.** The borrower will be the City of São Paulo and the Federative Republic of Brazil will be guarantor of the borrower's financial obligations under the loan. The City of São Paulo will execute the operation through its Municipal Health Department (SMS).

3.2 An institutional capacity assessment was conducted based on the lessons learned from the first phase of the program, which found that the executing agency will need to make some adjustments to the current design of the program coordination unit (PCU), its profiles, and positions, to better meet the needs of this new program, including hiring a works and legal coordinator. The PCU will be headed by a general coordinator tasked with technical coordination of the sector. These strategic positions will be filled by regular staff and supported by a team consisting of a management firm (through a model contract based on output) and individual consultants to be hired. Only those job positions with profiles that do not match those of available Municipal Health Department staff will be filled externally. The IDB will support the executing agency in these areas and will train new PCU members on the Bank's policies and procedures.

3.3 The Municipal Health Department will form a PCU that will report to the Health Secretary of the Municipal Health Department and will be responsible for: (i) planning, monitoring, and evaluating outcomes; (ii) administrative, financial, and procurement management; (iii) managing the technical quality of the program and dialogue with the technical departments involved; (iv) environmental and social management; (v) managing program communications; (vi) maintaining formal communications with the Bank; (vii) submitting disbursement requests and financial reports to the Bank; (viii) coordinating monitoring and evaluation activities; and (ix) submitting procurement plans, annual work plans, multiyear execution plans, and progress reports to the Bank. The Municipal Health Department will hire a company to support the PCU, pursuant to the terms of reference agreed on with the Bank.

3.4 The PCU will have a general program coordinator and a team dedicated full time to the program in order to expedite execution. This team will comprise a general coordinator and at least six sector coordinators for the following areas: (i) health care; (ii) works; (iii) information and communication technology; (iv) procurement and finance; (v) legal;

and (vi) socioenvironmental. The PCU will be supported by at least one social specialist and one environmental specialist.

3.5 The program Operating Regulations will provide details of the execution arrangements for each component, with clearly defined responsibilities and process flows and the required qualifications for PCU positions, among other relevant operational considerations. Any change to the program Operating Regulations during execution will require the Bank's prior written no objection.

3.6 **Special contractual conditions precedent to the first disbursement of the loan: (i) publication, in the City of São Paulo's Official Gazette, of the legal instrument establishing the PCU and the appointment of its coordinators based on the composition described in paragraph 3.4;** to ensure that the executing agency has a team ready to begin program implementation; **and (ii) approval and entry into effect of the program Operating Regulations, in accordance with the terms and conditions previously agreed on with the Bank**, to ensure the proper execution of the program.

3.7 **Special contractual conditions for execution: (i) prior to the start of the program's first works project and with the proceeds of this loan, the borrower will provide the Bank with evidence that a firm has been hired, under the terms agreed on with the Bank, to support program management and the technical and environmental supervision of the works.** This condition is considered essential to ensure smooth program execution. The management firm will provide human resources to complement the PCU staff according to the needs of each stage of the program. The hiring of a project management support firm is justified by the findings of the institutional capacity assessment, which identified weaknesses in project management and a lack of personnel from the current staff of the Municipal Health Department that could provide full-time support for program execution; **and (ii) if the preliminary studies demonstrate feasibility, the borrower will sign, with SP Parceiras or another institution in charge of structuring the PPP, an agreement, under the terms agreed on with the Bank, to govern the responsibilities of the parties and the use of resources,** to ensure that the objectives and outputs of procurement are met as planned in the program.

3.8 **Procurement.** Procurement financed with loan proceeds will be made in accordance with the following Bank policies: the Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15). In view of the institutional capacity assessment of the executing agency, procurement will be subject to ex post review, except where ex ante supervision is warranted and where single-source selection processes are included in the procurement plan that are partially or totally financed by the Bank. Where procurement is executed through the country system, supervision will be carried out through the country supervision system.

3.9 **Disbursements.** Disbursements will be made through advances of funds or another modality established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12), based on actual program liquidity needs over a period of up to six months. Disbursements will be deposited into a special bank account in the name of the program for the exclusive use of the loan proceeds, as described in document OP-273-12.

3.10 **Retroactive financing and recognition of expenditures.** The Bank may finance retroactively, from the loan proceeds, up to US$2 million (1% of the proposed loan amount, to hire the firm that will provide program management support to the PCU, and

to contract the intrahospital logistics system), and it may recognize, as part of the local contribution, up to US$20 million (9.7% of the estimated amount of the local contribution, to build and equip five SPMHN hospitals[34] under direct management, Component 1), for the financing of eligible expenditures incurred by the borrower prior to the loan approval date,[35] provided that requirements substantially similar to those established in the loan contract have been met. Such expenditures will have been incurred on or after the official start date of the operation[36] (23 October 2023), but may, under no circumstances, include expenditures incurred more than 18 months before the loan approval date.

3.11 **Audits.** Annual program financial statements will be audited by an external independent audit firm acceptable to the Bank and submitted to the Bank annually no more than 120 days after the close of each fiscal year of the executing agency. Final audited program financial statements will be submitted to the Bank no more than 120 days after the date of the last disbursement.

B. Summary of arrangements for monitoring results

3.12 **Monitoring.** The following standard Bank instruments will be used for program monitoring: (i) annual work plan and multiyear execution plan; (ii) procurement plan; (iii) results matrix; (iv) progress monitoring report; and (v) audited financial statements. The executing agency, through the PCU, will deliver semiannual progress reports to the Bank no more than 60 days after the end of each six-month calendar period. The report for the second half of each calendar year will also include: (i) the annual work plan and multiyear execution plan for the following year; (ii) an updated procurement plan; and (iii) where applicable, the actions to be taken to implement the auditor's recommendations. The indicators in the results matrix will be monitored based on the data generated by the City of São Paulo and reported in the Information Technology Department of the SUS (DATASUS).

3.13 **Evaluation.** The program's impact will be evaluated based on the synthetic control method using information from the DATASUS system (which routinely collects information), as well as state information available in the Brazilian Geography and Statistics Institute (IBGE). The program will also include a midterm evaluation within 90 days following the date on which 50% of the loan proceeds have been disbursed, and a final evaluation will be submitted to the Bank 90 days after the last program disbursement. The program budget includes specifically allocated resources to finance these evaluations.

IV. Eligibility Criteria

4.1 **Eligibility under the CCLIP.** This is the tenth operation under the ProSocial CCLIP (BR-O0009), and it fulfills the eligibility criteria established in the Bank's CCLIP policy (GN-2246-13, Section III(1) and the respective operational guidelines (GN-2246-15, Section III(B). Regarding the CCLIP: (i) its objectives are among the priorities defined in the Brazil and IDB Group Strategic Agreement (paragraph 1.44); and (ii) the liaison

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[34] Counterpart hospitals: Hospital Municipal Dr. José Soares Hungria, Hospital Municipal Prof. Dr. Waldomiro de Paula, Hospital Municipal Prof. Dr. Alípio Correa Netto, Hospital Municipal Dr. Arthur Ribeiro Saboya, and Hospital Municipal Dr. Benedito Montenegro.

[35] The multiyear execution plan includes an initial estimate of expenditure allocated to these activities.

[36] In accordance with regulation PR-200, Annex I (Procedures for Processing Sovereign Guaranteed Operations).

agency, SEAID, has the authority to coordinate and monitor the overall operational program of all sectors included in the CCLIP, so that it can verify that it is on track to achieve its multisector objectives (paragraph 1.38). Moreover, for this individual operation: (i) it prepared a comprehensive assessment of the institutional capacity of the Municipal Health Department, determining that it has the capacity to execute the program (paragraph 3.2), and identifying the areas that need to be strengthened for proper program implementation as well as the potential risks; (ii) the operation's objective supports the achievement of ProSocial's multisector objectives (paragraph 1.40); (iii) the operation is part of the health sector, included in the CCLIP (paragraph 1.38); and (iv) this loan proposal includes the actions to be taken that were identified in the institutional capacity assessment of the executing agency: (a) creation of a PCU supported by a management firm and external consultants (paragraph 3.2); (b) training of the PCU team in relevant Bank policies (paragraph 3.2) (e.g., procurement and environmental and social management); and (c) procurement of a financial management system in accordance with Bank requirements (Annex III).

Development Effectiveness Matrix		
Summary	BR-L1630	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	-Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Social protection and human capital development -Sustainable, resilient, and inclusive infrastructure	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3243-3	Improve the quality of spending on health and education
Country Program Results Matrix	GN-3207-3	The intervention is included in the 2024 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	9.0	
3.1 Program Diagnosis	2.5	
3.2 Proposed Interventions or Solutions	3.5	
3.3 Results Matrix Quality	3.0	
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 High	
Environmental & social risk classification	B	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison.
Non-Fiduciary		
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 Assessment Note:

The document presents an investment project of US$410.6 million, including 50% of IDB ordinary capital and 50% of local contribution. The general objective of this operation is to improve the health conditions of the population in the Municipality of São Paulo (MSP), by expanding access and increasing the quality of health services, consolidating the Health Care Networks in the most vulnerable regions of the municipality. The operation will finance the modernization and expansion of the directly managed hospital network, as well as the expansion of the institutional, strategic, and managerial capacities of the Municipal Health Secretariat of MSP as the governing body of this network.

The diagnosis is adequate and is supported by international evidence, highlighting the problems of the health system for the inhabitants of the most vulnerable areas of the MSP. The main problem lies in the gaps in access to quality hospital care for the most vulnerable population of the municipality, as well as in the deficient clinical and non-clinical management indicators of the network's hospitals, which have an impact on their efficiency levels.

The results matrix is consistent with the vertical logic of the operation. It presents reasonable impact, result and output indicators that are well-specified and appropriate for measuring the achievement of the general and specific objectives. Two results indicators require redefining their baselines with information to be collected once the intervention begins. Evaluation of results will be carried out through a quantitative (quasi-experimental) impact evaluation, a before-after analysis, and a qualitative evaluation. The cost-benefit analysis shows that the investment is socially profitable at an appropriate discount rate for this type of investment.

The project received an Environmental and Social rating in category B, as the activities may generate temporary negative environmental and social impacts linked to the renovation and expansion of four hospitals. The project has a medium-high overall risk rating due to risks associated with technical teams at the hospitals potentially resisting the organizational changes included in Component 2, as well as the potential change in government authorities in 2025, which could hinder the project's progress. Appropriate mitigation measures have been proposed and that can be monitored throughout the project.

RESULTS MATRIX

PROGRAM OBJECTIVES:	The specific objectives of this operation are to: (i) improve access to hospital services at hospitals of the São Paulo Municipal Hospital Network (SPMHN) under direct management; (ii) improve the quality of health services in the City of São Paulo; (iii) boost the efficiency of SPMHN hospitals under direct management; and (iv) strengthen the integration of SPMHN hospitals under direct management with other levels of care. The achievement of these objectives will support the general objective of improving the health conditions of the population of the City of São Paulo by expanding access to and improving the quality of health services, consolidating the health care networks in the city's most vulnerable regions.

GENERAL DEVELOPMENT OBJECTIVE/EXPECTED IMPACT[1]

Indicators	Unit of measure	Baseline	Baseline year	Targets		Means of verification
				Value	Year	
General development objective: Improve the health conditions of the population of the City of São Paulo by expanding access to and improving the quality of health services, consolidating the HCN in the most vulnerable regions of the city						
Premature mortality rate (30 to 59 years) due to cerebrovascular accidents – WOMEN	per 100,000 population	14.0	2023	13.4	2030	Mortality Information System (SIM)/ State Data Analysis System (SEADE)
Premature mortality rate (30 to 59 years) due to cerebrovascular accidents – MEN		19.8		18.8		
Premature mortality rate (30 to 59 years) due to diabetes mellitus – WOMEN		5.0		4.7		
Premature mortality rate (30 to 59 years) due to diabetes mellitus – MEN		8.5		8.1		
Hospital admission rate for conditions that are responsive to primary health care – WOMEN	per 100,000 population	36.6		32.0		
Hospital admission rate for conditions that are responsive to primary health care – MEN		43.7		37.6		
Hospital mortality rate (average for RHMSP hospitals under direct management)	discharges due to death/total discharges (in the period)	5.71%		5.25%		Hospital Information System (SIH)/Information Technology Department of the Brazilian Unified Health System (DATASUS)

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline	Targets	Means of verification

[1] All general development objective and specific development objective indicators refer to the City of São Paulo.

		Value	Year	End of program (2030)	
Specific development objective 1: Improve access to RHMSP hospital services under direct management					
Monthly average number of patients hospitalized in hospitals benefiting from the works	patients/month	4,319	2023	7,833	São Paulo Municipal Health Department (SMS) report listing patients seen per month (monthly discharges)
Monthly average number of patients undergoing surgery in operating rooms of hospitals benefiting from the works		1,101		1,561	SMS report listing patients seen per month
Specific development objective 2: Improve the quality of health services in the City of São Paulo					
Percentage of directly administered hospitals with National Accreditation Organization (ONA) quality certification	%	0	2023	66.6	SMS report
Percentage of laboratories with ONA quality certification				80	
Percentage of urgent care units with ONA quality certification				85	
Percentage of Afro-descendant women professionals in training courses offered by the program				30	SMS report/registration form
Specific development objective 3: Increase the efficiency of RHMSP hospitals under direct management					
Average stay in nursing wards of the medical clinic	days	7.47	2023	6.5	Hospital Information System (SIH)
Bed turnover (total)	hospitalizations/bed/30 days	3.54		4.62	National Register of Health Care Facilities (CNES)/SIH
Number of surgeries per operating room per day	surgery/room/day	1.27		2	
Water consumption per patient per day	cubic meters (m^3)/patient-day	0.82	2023	0.74	Vendor's invoice to SIH
Percentage of recycled water use in hospital	% m^3 recycled water/m^3 total water per month	0		10	SMS report
Percentage of hospital energy generated from photovoltaic sources	% KWh photovoltaic source/total KWh consumed per month	0		10	
Specific development objective 4: Strengthen the integration of RHMSP hospitals under direct management with other levels of care					
Percentage of professionals certified in integrated network training (hospitals, emergency services, diagnostic services, and PHC) in priority lines of care (maternal and child health, diabetes, hypertension, and cerebrovascular accidents)	Percentage of certified professionals registered in the course	0	2023	70	SMS report
Percentage of patients discharged from hospital whose clinical summary (discharge summary) was sent to the patient's referring primary care unit	Percentage of discharge summaries/number of discharges in the period	0		70	

OUTPUTS

Outputs	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of program (2030)	Means of verification
Component 1. Modernization and expansion of the hospital network's installed capacity										
1.1 Hospitals rehabilitated and expanded[2]	number of hospitals	0	2024	0	4	2	1	2	9	Documents certifying the completion of work and/or the acceptance of equipment issued by the SMS LEED seal certifying the consideration of green criteria for the buildings
1.2 Hospitals equipped				0	4	2	1	2	9	
Component 2. Support for service quality improvement and innovation promotion										
Subcomponent 2.1. Support for service quality improvement and innovation promotion										
2.1 Hospitals with optimized processes and flows	number of hospitals	0	2024	0	0	4	4	4	12	Semiannual report on the implementation of processes and flows in hospitals with SMS validation
2.2 Hospitals with intrahospital logistics system in place and integrated with other systems				0	3	3	3	3	12	Semiannual report of the program management unit (PMU)
2.3 Diagnostic assessment visits for quality certification of hospitals managed by the city carried out	number of visits			0	0	6	6	0	12	Diagnostic assessment visit report
2.4 Quality certification visits to hospitals managed by the city carried out				0	0	0	6	6	12	Certification visit report
2.5 Diagnostic assessment visits for quality certification of laboratories carried out				0	5	0	0	0	5	Diagnostic assessment visit report
2.6 Certification visits to laboratories carried out				0	0	5	0	0	5	Certification visit report
2.7 Diagnostic assessment visits for certification of urgent care units carried out	number of visits	0	2024	0	7	0	0	0	7	Diagnostic assessment visit report
2.8 Certification visits to urgent care units carried out				0	0	7	0	0	7	Certification visit report
2.9 Number of health professionals trained in clinical protocols and other health topics	number of people			0	0	0	0	800	800	SMS report verifying that the course was held, with certificates attached

[2] For details, see table with the estimated number of additional beds per hospital.

Outputs	Unit of measure	Baseline value	Baseline year	Year					End of program (2030)	Means of verification
				1	2	3	4	5		
2.10 Number of women professionals trained in women's leadership in health services				0	0	60	0	0	60	
2.11 Number of professionals trained in disability issues				0	0	60	0	0	60	
2.12 Hospitals with energy efficiency control system in place	number of hospitals			0	0	0	9	3	12	Documents proving completion of the system in the hospitals.
2.13 Feasibility study for the adaptation of hospital infrastructure for the care of people with disabilities, especially children with autism spectrum disorder	number of studies			0	0	0	1	0	1	Study in PDF format validated by the SMS
2.14 Non-probabilistic survey and interview study to identify gaps in access to comprehensive health care faced by LGBTQIA+ people and design of action plan				0	0	0	1	0	1	
Subcomponent 2.2. Instruments to expand the institutional capacities of the SMS										
2.15 Study to define hospital quality and production standards concluded	number of studies	0	2024	0	0	1	0	0	1	Study in PDF format validated by the SMS.
2.16 Hospital indicator dashboard monitoring system implemented	number of systems			0	0	0	1	0	1	Electronic systems function test records.
2.17 Clinical guidelines (with clinical protocols and flows) developed	number of hospitals			0	4	4	4	0	12	Study in PDF format validated by the SMS.
2.18 Study on the definition of the care profiles of each hospital in the direct network developed	number of studies			0	1	0	0	0	1	
2.19 Number of administrative staff trained in management	number of personas			0	40	40	0	0	80	SMS report verifying that the course was held, with certificates attached
2.20 Costing system implemented	number of systems	0	2024	0	0	1	0	0	1	Electronic systems function test records
Subcomponent 2.3. Studies on alternative models of direct network hospital management										
2.21 Feasibility study of the public-private partnership of the hospital network under the city's direct management carried out	number of studies	0	2024	0	1	0	0	0	1	PPP feasibility study prepared and validated
2.22 Feasibility study for the implementation of a management system through contracts between the SMS and hospitals carried out				0	0	0	0	1	1	Study in PDF format validated by the SMS

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil **Division:** SCL/SPH **Operation No.:** BR-L1630 **Year:** 2024

Executing agency: City of São Paulo, through its Municipal Health Department (SMS)

Operation name: Restructuring and Quality Improvement Program of the Hospital and Specialized Care Network of the City of São Paulo – Avança Saúde II (BR-L1630)

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. **Use of country systems in the operation**

♦ Budget	○ Reporting	♦ Information systems	○ National competitive bidding (NCB)
♦ Treasury	○ Internal audit	♦ Shopping	○ Other
♦ Accounting	○ External control	○ Individual consultants	○ Other

2. **Fiduciary execution mechanism**

♦	Specific features of fiduciary execution	The City of São Paulo will be the borrower, and its Municipal Health Department will be the executing agency responsible for the program's technical, administrative, financial, and procurement management, through the program management unit (PMU).

3. **Fiduciary capacity**

Fiduciary capacity of the executing agency	The fiduciary capacity assessment of the executing agency concluded that the City of São Paulo has sufficient institutional capacity to implement the program. The Fiduciary Agreements and Requirements of the operation consider the institution's background as the executing agency of 4641/OC-BR. The program will have program Operating Regulations that reflect risk mitigation measures, needs, and specificities of this program.

4. **Fiduciary risks and risk response:** No significant fiduciary risk was identified.

Risk classification	Risk	Risk level	Risk response
Economic and financial	If the exchange rate varies negatively (more than 15%) with respect to the exchange rate used in the consultation letter, the funds will be insufficient to achieve the initially proposed objectives, which will make it necessary to revise the budgets of the program components.	Low	The program budget should be systematically reviewed through the intensive monitoring of execution.

5. **Policies and guidelines applicable to the operation:** OP-273-12, OP-272-3, GN-2349-15, and GN-2350-15.

6. **Exceptions to policies and guidelines:** None

II. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE LOAN CONTRACT

Special conditions precedent to the first disbursement:
Exchange rate: For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(i). For the purposes of determining the equivalency of expenditures incurred in local currency chargeable against the local contribution, or for the reimbursement of expenses from loan resources, the agreed exchange rate will be the prevailing rate set by the Central Bank of Brazil on the date the borrower, the executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.
Type of audit: During program execution, the program's annual financial statements will be audited by an external independent audit firm acceptable to the Bank and submitted to the Bank annually no more than 120 days after the close of each fiscal year. Final audited program financial statements will be submitted to the Bank no more than 120 days after the date of the last disbursement.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

<table>
<tr><td>♦</td><td>Bidding documents</td><td>The procurement of works, goods, and nonconsulting services subject to international competitive bidding under the Bank’s procurement policies (document GN-2349-15) will be carried out using either the standard bidding documents issued by the Bank or those agreed on between the executing agency and the Bank. Consulting services will be selected and contracted in accordance with the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15) and will use either the Bank’s standard request for proposals document or the request for proposals agreed on between the executing agency and the Bank for a specific procurement.</td></tr>
<tr><td>♦</td><td>Use of country systems</td><td>The COMPRASNET system is accepted by the Bank for the procurement of off-the-shelf goods and services up to the international competitive bidding threshold.</td></tr>
<tr><td>♦</td><td>Advance procurement/ retroactive financing</td><td>The Bank may finance retroactively, from the loan proceeds, up to US$2 million (1% of the proposed loan amount, to hire the company that will provide program management support to the program coordination unit, and to contract the intrahospital logistics system), and it may recognize, as part of the local contribution, up to US$20 million (9.7% of the estimated amount of the local contribution, to build and equip five São Paulo Municipal Hospital Network (SPMHN) hospitals under direct management, Component 1), for the financing of eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the loan contract have been met. These expenditures must have been incurred on or after the official start date of the operation (23 October 2023), but may under no circumstances include expenditures incurred more than 18 months before the loan approval date.</td></tr>
<tr><td>♦</td><td>Procurement supervision</td><td>Supervision will be conducted on an ex post basis, with the exception of those cases in which ex ante supervision is warranted. Where procurement processes are executed through country systems, supervision will be performed through the country supervision system. The supervision method—(i) ex ante, (ii) ex post, or (iii) country system—will be determined for each selection process. Ex post reviews will be conducted in accordance with the project supervision plan, subject to changes during the course of execution. Ex post review reports will include at least one physical inspection visit, chosen from procurement processes subject to the ex post review. Ex post review thresholds are as follows:
<table>
<tr><th>Executing agency</th><th>Works</th><th>Goods and services</th><th>Consulting services</th></tr>
<tr><td>SMS-São Paulo</td><td>US$25 million</td><td>US$5 million</td><td>US$1 million</td></tr>
</table></td></tr>
<tr><td>♦</td><td>Records and files</td><td>Documentation of the process will be the responsibility of the City of São Paulo, through the PMU, which will maintain the necessary documentation for monitoring and auditing purposes.</td></tr>
</table>

Major procurement:

Description	Selection method	New procedures / tools	Estimated date	Estimated amount (US$)
Works[1]				
Contracting of a construction company to upgrade Hospital Municipal Alexandre Zaio	International competitive bidding (ICB)		08/01/2024	57,936,122.59
Contracting of a construction company to upgrade Hospital Municipal Mário Degni	ICB		08/01/2024	38,927,729.59
Nonconsulting services				
Contracting of an intrahospital logistics system	ICB		03/01/2025	86,720,000.00
Firms				
Contracting of management support consulting services[2]	Quality- and cost-based selection (QCBS)		11/01/2024	6,000,000.00
Specialized services for process and flow optimization in the 12 directly managed hospitals	QCBS		03/01/2026	5,000,000.00
Individuals				
Contracting of sector consulting services specializing in: (i) planning; (ii) procurement; (iii) financial management; (iv) legal affairs; (v) works; and (vi) communication (six CVs).	Selection of individual consultants (3 CVs)		11/01/2024	1,900,000.00

Access the procurement plan here.

[1] Integrated contracting will be adopted for engineering designs and hospital works.

[2] Output-based contracting.

IV. Financial Management Agreements and Requirements

♦	Programming and budget	The SMS, through the PCU, is responsible for coordinating the planning process for the execution of program activities, as stipulated in the multiyear execution plan and annual work plan. The executing agency uses the national instruments for planning and organizing the actions of programs financed with external loans: (a) the multiyear plan, which establishes the guidelines, objectives, and goals of the public administration; (b) the Budget Guidelines Act, and (c) the Annual Budget Act, which estimates and sets public expenditures for the current fiscal year. The budget will be registered in the Budget and Finance System (SOF) in its budget planning module. The PCU will coordinate directly with the Finance Department to ensure that budgetary resources for the program (IDB and local counterpart contribution) are allocated annually in the Annual Budget Act, and secured for execution according to program planning. Resources will be recorded in the SOF in the year of execution as an external source.
♦	Treasury and disbursement management	The program will use the treasury system of the City of São Paulo, where expenditures will be subject to the budget and financial execution process and will be duly recorded in the SOF. Disbursements will be made in U.S. dollars, primarily in the form of advances of funds. The amount of such advances will be based on a projection of financial execution for up to 180 days. With the exception of the first advance of funds, subsequent advances may be processed once supporting documentation has been submitted for 80% of the total accumulated balance. IDB funds will be administered through a bank account for exclusive program use that will allow for the receipt, management, and bank reconciliation of these funds. The exchange rate agreed upon with the executing agency to record expenditures paid from the loan proceeds will be the internalization rate. To determine the equivalency of expenditures paid from the local contribution or reimbursement of expenditures chargeable against the loan, the exchange rate agreed upon will be the buying rate set by the Central Bank of Brazil on the date on which project-eligible expenditures are actually paid. Expenses deemed ineligible by the Bank will be reimbursed from the local contribution or from other resources at the Bank’s discretion, depending on the nature of their ineligibility.
♦	Accounting, information systems, and reporting	The City of São Paulo uses the Budget and Finance System (SOF), a system with integrated modules that monitor budgetary, accounting, financial, and contract execution activities. The system is auditable and has access profiles and security guidelines. It also meets the Bank’s requirements in terms of controls. The SOF makes it possible to record transactions in Brazilian reais (R$) and to identify them by component and by funding source (IDB or local counterpart contribution).

		As in Phase I, the program will have a support system in Phase II to generate the financial reports required by the Bank in the currency of the loan contract (U.S. dollars).
♦	Internal control and internal audit	The internal control of the City of São Paulo is exercised by the Office of the Comptroller General (CGM), the central body of the internal control system of the executive branch. The functions of the Office of the Comptroller General include internal control, government audit, ombudsperson, public transparency, and societal oversight. The program's activities will be under its supervision.
♦	External control and financial reports	External control is exercised by the State Audit Office of the City of São Paulo. External audits of the program will be performed by an independent external auditing firm deemed eligible by the Bank. The fiscal year of the program runs from 1 January to 31 December. During program execution, audited annual financial statements with a cut-off date of 31 December will be delivered within 120 days after the close of each fiscal year. The program's final audited financial statements will be delivered within 120 days after the last disbursement date, or any extensions thereof.
♦	Financial supervision of the operation	The operation requires financial supervision that will include ex post review of disbursements, annual audits, and the review of disbursement requests. Under the responsibility of the fiduciary team, field supervision visits and desk audits will also be conducted annually, subject to adjustments during program execution.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/25

Brazil. Loan ____/OC-BR to the Municipality of São Paulo. Restructuring and Quality Improvement Program of the Hospital and Specialized Care Network of the City of São Paulo – Avança Saúde II. Tenth Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Social Spending Modernization Program in Brazil - ProSocial (BR O0009)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Municipality of São Paulo, 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 Restructuring and Quality Improvement Program of the Hospital and Specialized Care Network of the City of São Paulo – Avança Saúde II, which constitutes the tenth individual operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Social Spending Modernization Program in Brazil - Prosocial (BR-O0009), approved by Resolution DE-159/20 on 16 December of 2020. Such financing will be in the amount of up to US$205,300,000, 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 ___ _____ 2025)

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