

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

INTEGRATED SUSTAINABLE URBAN DEVELOPMENT PROGRAM FOR THE MUNICIPALITY OF JOÃO PESSOA

(BR-L1421)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	
1.	Multiyear Execution Plan (PEP) / Annual Work Plan (AWP)
2.	Monitoring and Evaluation Plan
3.	Environmental and Social Management Report (ESMR)
4.	Procurement Plan
OPTIONAL	
1.	Ex Ante Economic Analysis
2.	Program Operating Regulations
3.	Institutional Capacity Assessment System (ICAS)
4.	Program Environmental Assessment Report (RAA)
5.	Environmental and Social Management Framework (ESMF)
6.	Program Resettlement and Economic Rehabilitation Master Plan (PDRR)
7.	Environmental Assessment Report (RAA) Vista Alegre
8.	Environmental Assessment Report (RAA) São José
9.	Environmental Assessment Report (RAA) Saturnino de Brito
10.	Resettlement and Relocation Implementation Plan (PERR) São José
11.	Resettlement and Relocation Implementation Plan (PERR) Vista Alegre
12.	Resettlement and Relocation Implementation Plan (PERR) Saturnino de Brito
13.	Resettlement and Relocation Implementation Plan (PERR) Colinas de Gramame
14.	Action Plan for a Sustainable João Pessoa
15.	Study 1 - Climate Change Mitigation
16.	Study 2 - Vulnerability and Natural Risks
17.	Study 3 - Urban Growth
18.	Executive Summary - Implementation of the CCC
19.	Environmental Management System Plan
20.	Environmental Management System Manual
21.	Analysis of compliance with the Public Utilities Policy
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23.	Impact measurement report for the Habitat program
24.	Project Completion Report (PCR) - Multiphase Program for Municipal Modernization and Comprehensive Neighborhood Upgrading in Quito - Phase I
25.	Real estate in Latin America
26.	2015 Joint Report on Multilateral Development Banks' Climate Finance
27.	Safeguard policy filter (SPF) and safeguard screening form for the classification of projects (SSF)

ABBREVIATIONS

CAGEPA	Companhia de Água e Esgotos da Paraíba [Paraíba Water and Sewer Company]
CCC	Centro de cooperação da cidade [City cooperation center]
CGM	Secretaria da Controladoria Geral do Município [Municipal Department of the Comptroller General]
EMLUR	Empresa Municipal de Limpeza Urbana [Urban Sanitation Company]
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute for Geography and Statistics]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IPEA	Instituto de Pesquisa Econômica Aplicada [Institute for Applied Economic Research]
IPTU	Imposto Sobre a Propriedade Predial e Territorial Urbana [real property tax]
IRR	Internal rate of return
ISSQN	Imposto sobre Serviços de Qualquer Natureza [municipal services tax]
IT	Information technology
MJP	Municipality of João Pessoa
NCB	National competitive bidding
PDRR	Plano Diretor de Reassentamento e Relocalização de População e Atividades Econômicas [Resettlement and Economic Rehabilitation Master Plan]
PERR	Plano Executivo de Reassentamento e Relocalização [Resettlement and Relocation Implementation Plan]
PEU	Program execution unit
PMC	Program management committee
RAA	Reporte de Avaliação Ambiental [Environmental Assessment Report]
SAMU	Serviço de Atendimento Médico de Urgência [Urgent Medical Response Service]
SEAD	Secretaria da Administração [Department of Administration]
SEHAB	Secretaria de Habitação [Department of Housing]
SEMAM	Secretaria de Meio Ambiente [Department of the Environment]
SEPLAN	Secretaria de Planejamento [Department of Planning]
TCE/PB	Tribunal de Contas do Estado da Paraíba [Court of Accounts of the State of Paraíba]

PROJECT SUMMARY

BRAZIL INTEGRATED SUSTAINABLE URBAN DEVELOPMENT PROGRAM FOR THE MUNICIPALITY OF JOÃO PESSOA (BR-L1421)

Financial Terms and Conditions				
Borrower: Municipality of João Pessoa			Flexible Financing Facility^(a)	
			Amortization period:	24 years
Guarantor: Federative Republic of Brazil			Disbursement period:	5.5 years
Executing agency: Municipality of João Pessoa			Grace period:	6 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital)	100,000,000	50	Credit fee:	(c)
Local	100,000,000	50	Inspection and supervision fee:	(c)
			Original WAL:	15 years
Total	200,000,000	100	Currency of approval:	U.S. dollars
Project at a Glance				
<p>Project objective/description: The overall objective of the program is to promote sustainable urban development in the municipality of João Pessoa (MJP) through the strengthening of municipal planning and urban public management, as well as comprehensive and/or demonstration interventions for vulnerable families.</p> <p>The specific objectives are: (i) to strengthen urban management and planning tools; (ii) to increase access to quality low-income housing, infrastructure, and urban amenities for vulnerable families; (iii) to improve the quality of life in informal settlements by mitigating socioenvironmental risks and improving habitat in projects with potential for replication; and (iv) to increase efficiency in the management of municipal fiscal resources by strengthening administrative procedures, training, and modernizing information technology (IT) equipment.</p>				
<p>Special contractual conditions precedent to the first disbursement of the loan: The borrower will provide evidence of: (i) creation of the program management committee; (ii) creation of the program execution unit (PEU) and designation of the staff mentioned in paragraph 3.4, who will work exclusively on the program (paragraph 3.1); and (iii) approval of the program Operating Regulations and the Environmental and Social Management Framework (ESMF) in accordance with the terms previously agreed upon with the Bank (paragraph 3.6). The borrower will also comply with the contractual condition precedent to the first disbursement mentioned in paragraph 4.1 of Annex III.</p>				
<p>Special contractual conditions of execution: The borrower will fulfill the following conditions: (i) within 90 days after the entry into force of the loan contract, present evidence to the Bank that a firm has been hired to support program management; (ii) prior to the start of execution of each work financed with program resources, present evidence to the Bank that a firm has been hired to conduct the technical and environmental supervision of the respective work; and (iii) the period for the physical commencement of program works will be four years from the entry into force of the loan contract. (paragraph 3.5). In addition, it will fulfill the special contractual conditions of execution set forth in the Environmental and Social Management Report (ESMR).</p>				
<p>Exceptions to Bank policies: A partial exception is proposed with respect to the Bank's policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1) to allow the Bank to recognize, against the local counterpart contribution, expenditures incurred by the borrower prior to the project profile approval date (15 May 2017) but during the 18-month period prior to approval of the loan proposal (paragraphs 3.9–3.10).</p>				
Strategic Alignment				
Challenges:^(d)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes:^(e)	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate 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 relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **Background.** The municipality of João Pessoa (MJP) is the capital of the state of Paraíba, located in the center-west of Brazil. It has an area of 211 square kilometers, with an urbanization rate of close to 100% and a population of more than 800,000 (20% of Paraíba). Population growth in the 2010-2015 period was estimated at 1.8% per year, higher than that for the country as a whole (0.8%).¹ João Pessoa enjoys a privileged coastal location with approximately 30 kilometers of beaches, making it a natural destination for tourism. It also stands out for its high proportion of green space. In terms of quality of life, the Municipal Human Development Index ranks it among the top nine capitals in northeastern Brazil (2013).² Annual per capita GDP stands at US\$10,000.³ Income inequality has failed to improve in recent decades, however, as demonstrated by a Gini coefficient of 0.629, accompanied by significant sociospatial segregation.
- 1.2 **Diagnostic assessment.** Based on the studies conducted, including the Action Plan for the Emerging and Sustainable Cities Initiative (ESCI) ([optional electronic link 14](#)), the following challenges were identified and prioritized: (i) a disorderly land-use process, resulting from, among other things, out-of-date planning and urban management instruments that affect access to low-income housing for families with few resources, as well as basic infrastructure and/or urban amenities; (ii) as a result of this process, growth in informal settlements in locations at risk without early warning systems; and (iii) municipal administration with weaknesses that preclude sufficient revenue to support investments while also preventing efficient systems management due to complex procedures and lack of information technology (IT) support.
- 1.3 **Unregulated urban sprawl.** The municipality of João Pessoa continues to grow without the benefit of effective urban planning or regulation. The last review of the municipal master plan was conducted in 2008 and consisted of an adjustment of the 1992 master plan. Legislation governing the use, occupation, and division of land, collated in the Urban Code, dates from 1975. Outdated planning and urban management instruments have contributed to a 34% increase in the city's area ([optional electronic link 17](#)), compared with an increase of 21% in its population; this has translated into average demographic densities of 75 inhabitants per hectare ([optional electronic link 17](#)). In addition, there are large undeveloped areas throughout the municipality (7%). These areas occupy more space than land used for economic activities, which mainly consist of industry and services (6%) ([optional electronic link 4](#)).
- 1.4 **Informal settlements in risk areas.** The territorial segregation described above has created pockets of poverty generated by the unchecked development of informal

¹ Brazilian Institute for Geography and Statistics (IBGE) (2016).

² At the municipal level, the Municipal Human Development Index establishes a number between zero and one based on measurements in areas that are key for human development, such as health, education, etc. The Municipal Human Development Index for the municipality of João Pessoa is 0.763 (high). For reference, a Municipal Human Development Index of 0-0.499 is very low; 0.500-0.599: low; 0.600-0.699: medium; 0.700-0.799: high; 0.800-1: very high (United Nations Development Programme/ João Pinheiro Foundation/ Institute for Applied Economic Research (IPEA), 2013).

³ US\$1.00 = R\$3.20.

settlements. Low-income families have been forced to move to areas on the urban fringe due to lack of access to low-income housing projects, as well as adequate basic infrastructure services, urban amenities, and habitats.⁴ This displacement has led to the irregular occupation of vacant land, with the construction of single-family residences that lack services and are exposed to natural disasters (mainly flooding and landslides). According to census data (IBGE, 2010), it is estimated that 12.7% of the population of the municipality of João Pessoa (91,000 inhabitants) lives in 155 informal settlements distributed across 59 of the 64 neighborhoods. Moreover, approximately 7,500 families live in areas at risk (slopes, valleys, or riverbanks).⁵

- 1.5 **Delayed response to emergencies and natural disasters.** The municipality of João Pessoa lacks a control center with trained staff and interconnected IT equipment that would allow it to respond to different types of emergencies and/or issue early warnings, mainly for potential natural disasters. These institutional weaknesses have a significant impact on the most vulnerable population, particularly those low-income citizens living in irregular settlements that are far from the more formal areas of the city.
- 1.6 **Weak fiscal and administrative management.** The municipality of João Pessoa has a number of major institutional weaknesses, involving: (i) fiscal revenue collection; and (ii) the management of administrative processes and equipment. In terms of fiscal revenue management, it relies heavily on transfers from the federal government, as do other municipalities in Brazil. However, in the case of João Pessoa, only 30% of municipal revenue is own revenue, compared with an average of 37% in other capitals of similar size.⁶ Per capita current revenue is among the lowest in the country. The municipal services tax (ISSQN), which is the main source of local revenue, accounts for only 47% of total tax revenue, and its per capita value (R\$186) is below the average for similar cities in Brazil (R\$230).⁷ Revenue from the real property tax (IPTU) is only 12% of tax revenue, far below the average for similar cities (23%).
- 1.7 In terms of administrative processes, there are weaknesses in the municipality's management of its assets, as it lacks an updated registry of the municipal stock of assets. In addition, there are problems in the administration and control of the procurement and finance departments.⁸ There is also little integration between the

⁴ There are substantial housing needs in the municipality of João Pessoa. In terms of access to new housing, there is a deficit of approximately 17,000 units for low-income families (three minimum wages) (Local Low-income Housing Plan, 2013). It is estimated, in addition, that 41% of the homes of families living in irregular settlements have some kind of qualitative deficit (roofs, walls, overcrowding, basic sanitation, etc.). With respect to basic infrastructure services, 16,640 families lack access of some kind (water, sewerage, sanitation, paving, public lighting, etc.), and 50,879 homes are not connected to the sewer system. See: Local Low-Income Housing Plan, 2013.

⁵ According to the Emerging and Sustainable Cities Initiative, approximately 10,000 people live in areas that are at risk of flooding, with a further 19,000 in areas that are vulnerable to landslides ([optional electronic link 16](#)).

⁶ Aracaju, Maceió, Natal, Teresina, Campo Grande, Cuiabá, and Florianópolis ([optional electronic link 14](#)).

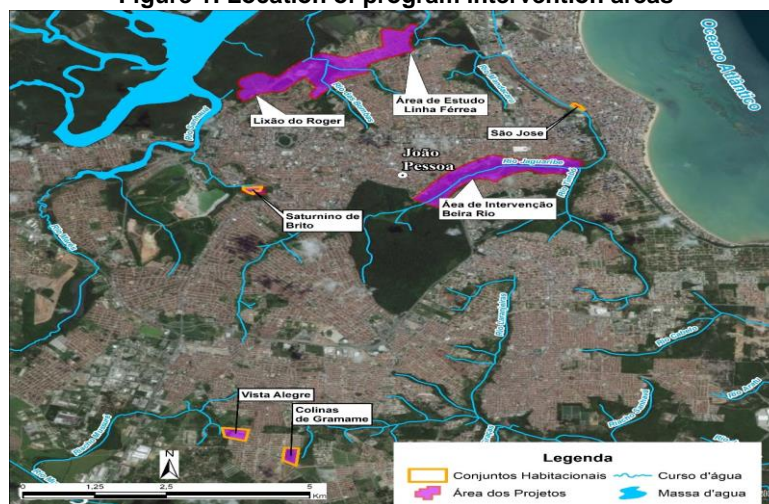
⁷ Noncompliance with tax obligations is high (averaging 60%), due to (i) a lack of instruments for building taxpayer awareness; (ii) low taxpayer audit capacity; (iii) weak control of administrative and tax processes; and (iv) inefficiency in tax assessments, control and management of the tax register, tax collections and audits, taxpayer services, prosecution, and enforced collections (source: MJP).

⁸ In 2016, the Procurement Committee (COPEL) conducted just 317 bidding processes, a number that could have been four times higher. There are serious deficiencies in the finance department's financial controls, with a lack of process mapping and redesign. There is little integration between the municipal departments of revenue, finance, administration, legal, and accounts receivable (source: MJP).

revenue, finance, administration, legal, and accounts receivable departments. In sectors such as the environment, urban development, and social programs, actions are implemented without the necessary planning, due to (i) a lack of integrated policies; (ii) weaknesses in training for professional staff; (iii) low operational capacity; and (iv) a lack of IT tools.

- 1.8 **Rationale.** To achieve the greatest possible impact with available resources, the structure of this operation is based on the following intervention priorities: (i) modernization of urban planning and management instruments, including those aimed at creating response capacity in the event of emergencies and natural disasters; (ii) interventions in four integrated housing developments at different stages of implementation, in keeping with the guidelines for the *Minha Casa, Minha Vida* program⁹ and the Bank's socioenvironmental policies;¹⁰ (iii) interventions in two irregular settlements—Complexo Beira R o and Complexo Linha F rrea—selected based on their socioenvironmental vulnerability and as potential examples for future interventions; and (iv) implementation of institutional strengthening actions to improve the Municipality of Jo o Pessoa's administration of fiscal resources, as well as its organizational and administrative processes, including IT equipment and training.

Figure 1: Location of program intervention areas



Source: MJP.

⁹ *Minha Casa, Minha Vida* was launched in March 2009 by the federal government of Brazil. Its objective is to provide access to housing for low-income families (up to R\$1,600) organized through cooperatives, associations, or other private nonprofit entities. Its specific objectives are to reduce the housing deficit and ensure dignified home ownership, as well as to improve the quality of life for the population. The program encourages cooperative approaches and the proactive participation of the population in solving housing problems. The Ministry for Cities provides the resources for the program, which is administered by Caixa Econ mica Federal. The process for selecting families involves access to information, consultation, and transparency in setting criteria and allocating housing, accompanied by a process of accessible communication with beneficiaries. The Ministry confirms the agreements with participating entities, including approval by Caixa Econ mica Federal.

¹⁰ The main ones are the Involuntary Resettlement Policy (OP-710), the Environment and Safeguards Compliance Policy (OP-703), and the Policy on Gender Equality in Development (OP-761).

- 1.9 The rationale for the interventions in the four housing developments is based on the selection proposed by the Municipality of João Pessoa, which focuses on reducing the large housing deficit among the municipality's vulnerable population. The eligibility criteria for beneficiary families included, among other things: (i) being of low income, consistent with *Minha Casa, Minha Vida* program guidelines; (ii) living in irregular settlements located in areas of environmental risk; (iii) displaced by emergencies related to environmental disasters declared by the National Department of Civil Defense; (iv) having female heads of household; and (v) having family members with physical disabilities.¹¹
- 1.10 The rationale for the interventions in the irregular settlements of Complexo Beira Río and Complexo Linha Férrea is based on the fact that they comprise 17 communities in areas of high vulnerability and are home to 7,249 families (2.8% of the population of João Pessoa). In the case of the Complexo Beira Río, the Municipality estimates that 20% of families live in areas vulnerable to landslides, and 52% in "Areas Subject to Permanent Preservation," i.e. that are environmentally protected). In the Complexo Linha Férrea, although there are significant gaps in infrastructure and urban amenities that will require major additional resources, the greatest challenge is to implement a definitive solution to the former municipal dump (lixão de Róger), which presents an ongoing risk to human health, polluting the Sanhauá River, as well as native vegetation and mangroves throughout a significant section of the city.¹²
- 1.11 **The Bank's country strategy with Brazil.** The program is consistent with the Bank's institutional mission of reducing poverty and social inequality, inasmuch as it addresses two strategic areas established in the country strategy with Brazil for 2016-2018 (document GN-2850): (i) reducing inequity and improving public services through housing solutions that include access to all basic services (sewage, water, drainage, public lighting, paved streets, etc.); and (ii) strengthening institutions at the three levels of government by implementing tools for urban and fiscal control and planning. The program also meets the criterion of multisectorality that is supported by the strategy.
- 1.12 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008), and it is aligned with the development challenge of social inclusion and equality and the crosscutting theme of institutional capacity and rule of law, based on improvements in fiscal management in the municipality, by means of contributions to the Corporate Results Framework 2060-2019 (document GN-2727-6), through: (i) households benefiting from housing solutions; and (ii) government agencies benefited by projects that strengthen technological and managerial tools to improve public services and municipal fiscal management. It is also aligned with the crosscutting theme of climate change, through an increase in green spaces protected by the municipality. It is estimated that approximately 10.35% of the funds under this operation will be

¹¹ For further detail on the criteria for selecting beneficiary families and the consistency of the proposed interventions with the Bank's socioenvironmental policies, the project team, together with the Municipality of João Pessoa, has prepared four Resettlement and Relocation Implementation Plans (PERRs) ([optional electronic link 10](#), [optional electronic link 11](#), [optional electronic link 12](#) and [optional electronic link 13](#)) and three Reportes de Avaliação Ambiental [Environmental Assessment Reports] (RAAs) ([optional electronic link 7](#), [optional electronic link 8](#) and [optional electronic link 9](#)) for the proposed housing developments.

¹² The dump was closed by the municipality in 2013 but remains partly operational. See the Environmental and Social Management Report (ESMR) ([required electronic link 3](#)) for further information.

invested in climate change adaptation and mitigation activities, based on the multilateral development banks' joint methodology for tracking climate finance ([optional electronic link 26](#)). Financing under this operation will contribute to the IDB Group's target of increasing financing for climate change-related projects (30% of all approvals by 2020). The operation is also aligned with the Urban Development and Housing Sector Framework Document (document GN-2732-6), the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (document GN-2710-5), the Sector Strategy for Institutions for Growth and Social Welfare (document GN-2587-2), the Fiscal Policy and Management Sector Framework Document (document GN-2831-3), and the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-3). The program is included in the 2017 Operational Program Report (document GN-2884). In addition, the program will identify opportunities to promote gender equality. To this end, the baseline will be disaggregated by gender in the case of housing unit titles issued to female heads of household. A plan will be prepared for the economic development of communities in the Complexo Beira Rio area, and this will include gender-affirmative actions.

- 1.13 **Evidence, sector knowledge and lessons learned.** This operation benefits from the Bank's international experience and the evidence presented regarding the effectiveness of similar housing and neighborhood improvement projects ([optional electronic link 16](#)) in (i) research conducted into projects that provide the low-income population with housing solutions in certain Mexican cities,¹³ through a hedonic model of housing prices¹⁴ using a difference-in-differences approach to evaluation;¹⁵ and (ii) projects that promote integrated actions to improve neighborhoods or the urban environment.¹⁶ In both cases, the residents of the targeted areas feel that their surroundings are safer and more peaceful, and that the streets look better (which encourages people to repair their homes and clean up vacant lots). It also fosters the community's perception of their space, increasing the sense of belonging and social cohesion, and it improves the physical and environmental surroundings in irregular settlements, thus spurring the development of basic social pillars in urban neighborhoods with social interventions, with the additional stimulus of community participation processes.¹⁷ At the national level in Brazil, the program has incorporated the lessons learned from PROCIDADES,¹⁸ together with the most recent implementation practices for early warning systems and the operation of city

¹³ Evaluación de Impacto en Valor Inmobiliario del Programa Hábitat 2009-2012 en Ciudades de México. Alegría et al., 2014 ([optional electronic link 22](#)).

¹⁴ The price of land per square meter rose by R\$27.7 in real terms in the control group, while the impact on the treatment group resulted in an additional R\$75.5 more per square meter—3.7 times higher than the real rate of appreciation in the control group. In terms of cost-benefit, the results indicate that for every peso invested in services, infrastructure, and amenities, the value of lots with homes improved by R\$2.8 per square meter.

¹⁵ The real price of land in the control group rose by R\$27.7 per square meter between the second half of 2009 and the first half of 2012, while the impact on the treatment group was R\$75.5 per square meter—3.7 times higher than the real rate of appreciation in the control group. In terms of cost-benefit, the results indicate that for every peso invested in services, infrastructure, and amenities, the value of lots with homes improved by R\$2.8 per square meter.

¹⁶ Impact measurement report for the Habitat program. Barba and Quintero, 2012.

¹⁷ Project completion report, Multiphase Program for Municipal Modernization and Comprehensive Neighborhood Upgrading in Quito, 1740/OC-EC (2015).

¹⁸ *Cidades em transformação: experiências de desenvolvimento urbano no Brasil apoiadas pelo Procidades* (2016); *Slum Upgrading: Lessons Learned in Brazil*, IDB (2012); *Building Cities: Neighbourhood Upgrading and Urban Quality of Life*, IDB (2009).

cooperation centers (CCCs),¹⁹ as well as support for improving public and fiscal management.²⁰

- 1.14 **Compliance with the Public Utilities Policy (document GN-2716-6).** The program meets the financial and economic sustainability conditions set out in this policy, as well as the principle of expanding access to sanitation services for the low-income population in all the housing developments and irregular settlements to be financed under this operation (Component 1, Subcomponents 2 and 3). Before opening the bidding process for any public utility works (water, sewage, stormwater), and to ensure the financial and economic sustainability of the interventions, the Municipality of João Pessoa will sign a specific agreement with Companhia de Água e Esgotos da Paraíba (CAGEPA) mandating that once the works have been completed and inspected they will be formally transferred to CAGEPA, which will be responsible for operation and maintenance of the works from that point onward, consistent with the regulations governing the sector. Additionally, the Municipality of João Pessoa and CAGEPA will agree on the utility rates necessary to cover the operating, maintenance, and depreciation costs of infrastructure built using program funds.

B. Objectives, components, and costs

- 1.15 **Objectives.** The overall objective of the program is to promote sustainable urban development in the municipality of João Pessoa (MJP) through the strengthening of municipal planning and urban public management, as well as comprehensive and/or demonstration interventions for vulnerable families. The specific objectives are: (i) to strengthen urban management and planning tools; (ii) to increase access to quality low-income housing, infrastructure, and urban amenities for vulnerable families; (iii) to improve the quality of life in informal settlements by mitigating socioenvironmental risks and improving habitat in projects with potential for replication; and (iv) to increase efficiency in the management of municipal fiscal resources by strengthening administrative procedures, training, and modernizing IT equipment. To achieve these objectives, the program will include the following components:
- 1.16 **Component I. Sustainable urban development and city management (US\$163.2 million).** The objective of this component is to strengthen planning and urban management, support a reduction in the municipal housing deficit, and improve vulnerable irregular settlements by means of integrated interventions. This component is divided into three subcomponents:
- 1.17 **Subcomponent 1. Strengthening of urban planning and management (US\$25.7 million, IDB; US\$5.7 million, MJP).** The following activities will be financed: (i) review of the municipal master plan; (ii) preparation of urban densification and sustainable housing studies; (iii) preparation of socioenvironmental studies for interventions in irregular settlements with vulnerable populations;

¹⁹ The Bank's experience with early warning systems in recent years includes: 1707/OC-EC; 3913/OC-EC; ATN/OC-10628-CH; and ATN/JF-15630-PR. In the case of the CCC, the following studies/experiences were taken into account: Department of Security, Madrid Town Hall (2013), *CISEM: la gestión integral de la emergencia*; IBM (2014) *Smarter Cities: nuevos sistemas para la gestión inteligente de las ciudades*; IDB (2016), *International Case Studies of Smart Cities: Anyang, Republic of Korea*; NEC (2017), *Índices operativos en los Centros de Operación de Argentina*.

²⁰ National Program to Support the Administrative and Fiscal Management of Brazilian Municípios (PNAFM) (2248/OC-BR).

(iv) preparation of a municipal plan for the reduction of natural disaster risks; and (v) establishment of the city cooperation center (CCC) with integrated institutions and technology for emergencies, natural disaster risk, public safety, and mobility.²¹

- 1.18 **Subcomponent 2. Financing for integrated housing developments for vulnerable families (US\$57.6 million, MJP).** Counterpart resources from the Municipality of João Pessoa will be used to finance the construction of approximately 2,300 homes for approximately 11,500 low-income individuals in the following housing developments: Colinas de Gramame, São José, Saturnino de Brito, and Vista Alegre. Financing will also be provided for basic infrastructure and/or urban amenities prioritized on the basis of the criteria established in the program Operating Regulations, consistent with the Bank's socioenvironmental policies.
- 1.19 **Subcomponent 3. Habitat improvement in vulnerable irregular settlements (US\$39.4 million, IDB; US\$34.8 million, MJP).** Financing will be provided to relocate families at risk in irregular settlements in Complexo Beira Rio, selected based on level of vulnerability.²² Financing will be provided for the following and other activities in Complexo Beira Rio: (i) integrated urban design of the area; (ii) relocation of approximately 840 families in locations at risk, including the expropriation of areas for the construction of approximately 675 homes; (iii) implementation of infrastructure and/or urban amenities works in selected areas; (iv) preparation and implementation of a social and economic support plan for beneficiary families, including creation of a social services office; and (v) cadastral regularization and titling of property. In the case of Complexo Linha Férrea, financing will be provided for the following: (i) integrated urban design of the area; (ii) selection of essential works for the delivery of basic infrastructure services and/or urban amenities; and (iii) socioenvironmental remediation of the former municipal dump.²³ The cadastral regularization of housing will be carried out within the scope of program intervention, for homes already built, and following the regularization activities prescribed by local law.
- 1.20 **Component II. Strengthening of municipal public management (US\$24.8 million).** The objective of this component is to support the municipal government in modernizing its management tools, delivering public services, and improving tax collection. This component is divided into two subcomponents:
- 1.21 **Subcomponent 1. Improved tax administration (US\$11.8 million, IDB).** Financing will be provided for: (i) implementation of a new tax collection and taxpayer management model; (ii) an update of the cadastre of property values; and (iii) implementation of a taxpayer management model, a collections model, a tax administration system, and fiscal intelligence and education programs.

²¹ The structure of the CCC includes the planned creation of an early warning system for floods and landslides, in order to: (i) monitor natural phenomena at observation stations; (ii) analyze the risk of floods and landslides in advance based on data monitoring; (iii) establish decision-making criteria and protocols for issuing early warnings to local authorities and citizens; and (iv) raise awareness and train the population regarding these types of situations, in coordination with the municipal authorities.

²² The Municipality of João Pessoa has identified 35 areas at risk within its limits. Complexo Beira Rio and Complexo Linha Férrea account for more than 50% of those residing in these areas.

²³ The recovery and potential socio-environmental use of the space occupied by the former municipal dump (Lixão de Róger) will be carried out with reference to the urban design approved by the Bank for the Complexo Linha Férrea and validated by its residents, as well as current environmental regulations and their correspondence with the Bank's socio-environmental policies.

1.22 Subcomponent 2. Improved administrative management (US\$13 million, IDB).

This subcomponent will finance the following activities: (i) support for the organizational restructuring of the municipal agencies linked to the program;²⁴ (ii) training of municipal civil servants as part of the implementation of the school of government; (iii) modernization of asset management; (iv) improvement of the municipal financial and accounting management system; (v) improvement of municipal procurement management; (vi) implementation of financial management focused on improving expenditure; (vii) improvement of planning and management of social assistance; (viii) implementation of a procedural model for municipal civil defense; (ix) improvement of the service and security system in the area of information technology; (x) implementation of a data center; and (xi) installation of a secure room that complies with international security standards.

1.23 Program administration (US\$11.9 million). Financing will be provided for the creation and operation of a program execution unit (PEU), and for the engagement of a consulting firm specialized in project management to support management of the different components under this operation, including the supervision of all infrastructure and urban amenity works. Consulting services will also be engaged for evaluation, external audits of accounting and financial records, and implementation of the Environmental and Social Management Framework (ESMF) ([optional electronic link 5](#)).

C. Key results indicators

1.24 The indicators set out in the results matrix (Annex II) and the monitoring and evaluation plan (MEP) ([required electronic link 2](#)) were prepared in collaboration with the Municipality of João Pessoa. The main impact indicators are as follows: (i) average property values in the middle region of the Jaguaribe River; and (ii) an increase in the fiscal sustainability of the municipality. The outcome indicators are as follows: (i) families benefiting from housing solutions in the municipality of João Pessoa; (ii) reduction in the housing deficit for low-income families in the municipality of João Pessoa; (iii) families benefiting from basic infrastructure; (iv) houses titled to female heads of household in the middle region of the Jaguaribe River; (v) average emergency response time by the Urgent Medical Response Service (SAMU); (vi) increase in collections from the real property tax (IPTU); and (vii) valuation of the Municipality of João Pessoa's real property holdings.

1.25 Economic analysis. To establish the economic viability of the program, a cost-benefit analysis was carried out to estimate the economic benefits of property values in the intervention area, compared with a control area, based on robust difference-in-differences methodologies and the hedonic pricing method. The economic benefit arising from the homes to be built was also estimated, based on the difference between rental values paid in the intervention area and those paid in a control area. The economic analysis carried out ([optional electronic link 1](#)) encompassed all actions planned under the Complexo Beira Rio urban and environmental rezoning project, taking into account investments and operating and maintenance costs. A discount rate of 12% was used. The results were as follows: an internal rate of return (IRR) of 33.01%, with a net present value of R\$49.3 million and a cost-benefit ratio of 1.30. A sensitivity analysis also confirmed the viability of the program: after a 20% increase in costs, the IRR was 16.25%, and after a 20% reduction in benefits, it was

²⁴ Department of the Environment (SEMAN), Department of Housing (SEHAB), and Empresa Municipal de Limpeza Urbana (EMLUR).

13.67%. Assuming a 10% increase in costs and a 10% reduction in benefits, the IRR was 15.85%. The analysis indicates that the program remains viable up to a maximum increase of 29.2% in costs and a maximum reduction of 22.3% in benefits.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation has been structured as a multiple works program as most of the resources, both from the Bank (39%) and the local counterpart (92%), will finance a series of similar basic infrastructure and/or urban amenity works for each of the different housing developments and irregular settlements. The works are physically similar and independent of each other. The feasibility of the works will be determined based on the needs of each intervention and the corresponding urban designs. The total cost of the program is US\$200 million, financed by a US\$100 million loan from the Bank's Ordinary Capital and a local counterpart contribution in the same amount from the Municipality of João Pessoa, as set out in the table below.

Table 1. Summary of program costs (US\$ thousands)

Components/Subcomponents	Bank	MJP	Total	%
Cost categories	89,966	98,077	188,042	94.02
Component I. Sustainable urban development and city management	65,111	98,077	163,187	81.59
Component II. Strengthening of municipal public management	24,855	-	24,855	12.43
Program administration	10,034	1,923	11,958	5.98
PEU and audit	7,653	1,923	9,576	4.79
Monitoring and evaluation	469	0	469	0.23
ESMP programs	1,913	0	1,913	0.96
Total	100,000	100,000	200,000	100.00

- 2.2 **Representative sample and eligibility criteria.** To determine the type of basic infrastructure and/or urban amenity works to be financed under the program, a representative sample was created for Complexo Beira Río, the settlement to which most of the proceeds from the Bank loan will be targeted, using technical engineering, economic, environmental, and social analyses. The sample comprises the urban infrastructure works that will be implemented in Complexo Beira Río and Complexo Linha Férrea (such as supplementary sewer and drainage systems, road paving, and construction of public and recreational spaces, in addition to remediation of the Róger dump) and the construction of houses in Complexo Beira Río and the housing developments targeted under the *Minha Casa, Minha Vida* program. The sample covered 30.6% of the loan proceeds, allowing preparation of the economic viability study, an involuntary resettlement plan ([optional electronic link 6](#)) for the entire program,²⁵ a resettlement and relocation implementation plan (PERR) for the four housing developments to be financed by the Municipality of João Pessoa ([optional electronic link 10](#); [optional electronic link 11](#); [optional electronic link 12](#); [optional electronic link 13](#)), the ESMF ([optional electronic link 5](#)), the environmental assessment reports (RAAs) for the program ([optional electronic link 4](#)) and the

²⁵ The Resettlement and Economic Rehabilitation Master Plan (PDRR) is equivalent to the Bank's Involuntary Resettlement Plan (OP-710).

ESMR ([required electronic link 3](#)). Activities financed with loan proceeds will meet the following eligibility criteria: (i) the basic infrastructure and/or urban amenity projects must have complete engineering designs consistent with the applicable sector policies and strategies, and their dimensioning must reflect actual demand, based on studies of alternatives; (ii) in the case of the resettlement and relocation of families, those families living within the perimeter of the intervention that have been registered for this purpose are eligible; (iii) the projects have an internal rate of return that demonstrates their economic viability; (iv) they have the urban and environmental permits required under current regulations, as well as sustainability analyses based on the ESMF; and (v) the works must be submitted to consultation processes with the local population. The full list of eligibility criteria is available in the program Operating Regulations ([optional electronic link 2](#)).

- 2.3 **Disbursement period and schedule.** The disbursement period will be five and a half years from the date of signature of the loan contract, in accordance with the following schedule:

Table 2. Disbursement schedule (US\$ million)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 (*)	Total
IDB	4.74	21.14	22.07	31.18	13.52	7.34	100.00
LOCAL	15.16	20.96	20.57	20.96	16.09	6.25	100.00
% IDB	4.70	21.10	22.10	31.20	13.50	7.30	100.00
% LOCAL	15.20	21.00	20.60	21.00	16.10	6.30	100.00
TOTAL	10.00	21.10	21.30	26.10	14.80	6.80	100.00

(*) Six months.

- 2.4 **Financial analysis.** According to the financial evaluation of the municipalities carried out by Brazil's federal government, the Municipality of João Pessoa meets the indicators established in the Fiscal Responsibility Law and is therefore in a position to sign this loan contract with the Bank. Before authorization is given for the loan contract to be signed, however, the federal government will examine the Municipality of João Pessoa's fiscal situation once again with a view to issuing final approval.

B. Environmental and social risks

- 2.5 Due to the resettlement of 840 families and compensation for 11 economic activities for families located in areas of high environmental risk in Complexo Beira R o, the program was classified as a category "A" operation, with a medium level of risk in terms of potential natural disasters. The main socioenvironmental impacts will be positive, although negative impacts will also be generated.
- 2.6 The measures for mitigating the socioenvironmental impacts and risks are consolidated in the ESMF for the program ([optional electronic link 5](#)) and in the environmental and social management plans (ESMPs), including the specific environmental control plan for works for each intervention. To support implementation of the ESMPs, an environmental management system was developed for the program ([optional electronic link 19](#)). To mitigate the social impacts and risks associated with resettlement, a resettlement and economic rehabilitation master plan (PDRR) was prepared ([optional electronic link 6](#)), consistent with operational policy OP-710. This sets out the guidelines, rules, and procedures for preparing and executing the resettlement processes and

complementary actions to be developed under the program. Each specific intervention will have a PERR ([optional electronic link 10](#); [optional electronic link 11](#); [optional electronic link 12](#); [optional electronic link 13](#)) that sets out the stages of the involuntary resettlement process, the calendar for implementing the process, and the costs of execution and monitoring.

- 2.7 The other risks identified are as follows: (i) natural disaster risk: families affected by the program are in areas subject to flooding and landslides; the proposed mitigation measures involve (a) resettlement of around 840 Complexo Beira Rio families in new homes in safe, developed areas; (b) installation and operation of an early warning system for disaster prevention; and (c) financing for a municipal disaster risk reduction plan; (ii) difficulty in applying safeguards: to mitigate the risk of a failure on the part of the Municipality of João Pessoa to comply with socioenvironmental safeguards, (a) the program execution unit (PEU) will be supported by the Bank's team in implementing the guidelines contained in the documents described in paragraph 2.6; and (b) compliance with environmental permits, environmental reports for the works, and the ESMF will be required; and (iii) the occurrence of social conflicts: as mitigation measures (a) the program will have local offices with professional teams and specialists to support the resettlement activities; and (b) communication and social monitoring activities will be carried out with the affected parties, and there will be complaints and grievances mechanisms.
- 2.8 The program complies with the Bank's environmental and social safeguards, as verified in the ESMR compliance table ([required electronic link 3](#)). In terms of environmental compliance, an environmental assessment report (RAA)²⁶ was prepared for the program ([optional electronic link 4](#)), including an ESMF ([optional electronic link 5](#)). A specific RAA was completed for each sample intervention in Complexo Beira Rio and the housing developments ([optional electronic link 7](#); [optional electronic link 8](#); [optional electronic link 9](#)), including the respective ESMF, the identification of any gaps with respect to the Bank's safeguards, and action plans to resolve these gaps. As regards compliance with social safeguards, in addition to the PDRR for the program as a whole ([optional electronic link 6](#)), PERRs were prepared for the housing developments;²⁷ these document the preparation and execution process for the resettlements, including the guidelines and procedures set out in local regulations and the requirements for social and technical work, as well as the identification of gaps with respect to the Bank's safeguards and actions to resolve these. With respect to the dissemination and consultation processes, all environmental analyses and resettlement plans were made available to the public on the websites of the Bank and the municipality.²⁸ Two public consultations have been held to date.²⁹ With respect to consultations on environmental issues and compliance with Directive B.6 of operational policy OP-703, two consultations were held on the RAA and the ESMF. The first was held on 7 April 2017 and the second on 8 May 2017, prior to the analysis mission. The consultations were widely publicized through the municipal government of João Pessoa, which provided a

²⁶ The RAA is the equivalent of the Bank's environmental impact assessment (EIA), which is used for category "A" programs.

²⁷ São José ([optional electronic link 10](#)), Vista Alegre ([optional electronic link 11](#)), Saturnino de Brito ([optional electronic link 12](#)), and Colinas de Gramame ([optional electronic link 13](#)).

²⁸ <http://www.joaopessoa.pb.gov.br>.

²⁹ The first consultation regarding the RAA and the PDRR for the program was held on 7 April 2017. The second consultation was held on 8 May 2017, together with the RAAs and the PERRs for the samples.

sufficiently large, fully wired auditorium and support personnel to facilitate the question and answer process. With respect to the consultations on social issues, in compliance with operational policy OP-710, the following activities were carried out: (i) two consultations on the Resettlement and Economic Rehabilitation Master Plan (PDRR) were held, one on 14 March 2017 and one on 23 May 2017, to which local leaders and members of the community were invited. The invitation contained information on the location, schedule of events, and purpose of the consultations, in order to provide information on involuntary resettlement in the area of risk, including the compensation options that had been identified, and to offer an opportunity for the attendees to comment; and (ii) consultations on the Resettlement and Relocation Implementation Plans (PERR) for the housing development projects corresponding to the sample and counterpart were held on two occasions for each PERR, in March and April 2017, in accordance with operational policy OP-710.

C. Fiduciary risks

- 2.9 The results of the Institutional Capacity Assessment System (ICAS) ([optional electronic link 3](#)) and the project risk management analysis showed that the Municipality of João Pessoa has a medium level of fiduciary risk due to its lack of experience in executing Bank projects. This may lead to difficulties in procurement and contracts for works and studies. The following measures are proposed to mitigate this risk: (i) creation of the PEU and the appointment of PEU staff and those responsible for technical execution; (ii) creation of a cross-sector management committee; (iii) preparation and publication of program Operating Regulations that describe the workflows and responsibilities of the entities involved in execution; (iv) hiring of a management firm to support the PEU with program management and administration; (v) creation and training of a special bid committee for the program; and (vi) fiduciary training. The Municipality of João Pessoa's lack of experience with loans from international organizations means that it will be essential to provide training to the team responsible for program execution (PEU and special bid committee), covering the preparation of disbursement requests and the Bank's procurement policies.

D. Other program risks

- 2.10 **Institutional.** Based on the project risk management evaluation, the following medium-level risks were identified: (i) development: weak program execution; (ii) governance: deficiencies in public administration at the municipal level; (iii) macroeconomic: poor economic performance by the country, exchange rate risk, deepening of federal government budgetary restrictions, and possible change in the Municipality of João Pessoa's rating; and (iv) sustainability: inadequate works maintenance. The main mitigation actions are as follows: (i) development: creation of the program management committee; (ii) governance: strengthening of the main municipal management tools and personnel training; and (iii) macroeconomic: (a) monitoring of the National Treasury's assessment of the Municipality's payment and borrowing capacity and its fiscal situation, adjusting cash flow and counterpart funding where necessary; (b) adjustments to *pari passu*, without prejudice to the program's vertical logic, and/or conversion of part of the loan to local currency payment; (c) systematic monitoring of *pari passu* under the program; assessment of available local counterpart funding; and (d) analysis of the rating issued by the Bank and the National Treasury.

- 2.11 **Sustainability.** The following medium risk has been identified: substandard maintenance of works. The borrower commits to take the steps necessary for the works to be executed and maintained in accordance with the technical standards agreed upon by the parties. Accordingly, by the end of the first quarter of each year, and for the three-year period following the final disbursement, the Municipality of João Pessoa will submit annual reports to the Bank on the status of the works. If the Bank concludes that maintenance of the completed works is substandard, the borrower will take the necessary action to remedy the problems as mutually agreed. The main actions to ensure sustainability of the program are as follows: (i) environmental education campaigns in participating communities; (ii) public hearings, seminars, and community participation activities for execution and management of the works, for the purpose of cultivating a sense of ownership of the interventions on the part of residents; (iii) operation and maintenance plan for the works; (iv) where necessary, an increase in the municipal budget; and (v) strengthening of participating municipal departments, mainly through training activities and equipment purchases.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Municipality of João Pessoa (MJP). The Federative Republic of Brazil will be guarantor of the borrower's financial obligations. The Municipality of João Pessoa will execute the program through a program execution unit (PEU) to be created in the municipality's Office of the Mayor. **As a special contractual condition precedent to the first disbursement of the loan, the borrower will provide evidence of: (i) creation of the program management committee; and (ii) creation of the program execution unit (PEU) and designation of the staff mentioned in paragraph 3.4, who will work exclusively on the program.** This is to ensure that (a) all of the departments involved in execution of the program are coordinated for its launch; and (b) the borrower is in a position to begin program execution, with a properly assembled team.
- 3.2 The operation calls for a program management committee, which will support coordination between the PEU and municipal government entities and other spheres of government involved in program execution. Its creation and functions are described in the program Operating Regulations ([optional electronic link 2](#)).
- 3.3 The PEU's main responsibilities will be to: (i) act as interlocutor for the Municipality of João Pessoa before the Bank; (ii) plan and coordinate program execution in coordination with the program management committee; (iii) prepare and submit plans and other operational documents (including the annual work plan, project execution plan ([required electronic link 1](#)), and financial plan), the procurement plan ([required electronic link 4](#)), and progress reports; (iv) coordinates the preparation of studies and projects; (v) monitor and assess compliance with the established targets and actions; (vi) manage program resources, financial planning, disbursement requests, and documentation of expenditures; (vii) prepare terms of reference, budgets, and other documents necessary for procurement processes; (viii) carry out procurement processes through the special bid committee; (ix) administer contracts and the execution of works and services; (x) support the execution and inspection of works and services; and (xi) keep program records separated by source of funding.

- 3.4 Coordination of the PEU will comprise the following public officials working exclusively on the program: (i) one general coordinator; (ii) one urban development coordinator; (iii) one public management coordinator; (iv) one administrative and financial coordinator; (v) one environmental coordinator; (vi) one social coordinator; and (vii) one CCC coordinator. The PEU will also have the support of a special bid committee to carry out all of the selection and contracting processes for consulting services and the procurement of common goods, services, and works. Its creation and functions are described in the program Operating Regulations ([optional electronic link 2](#)).
- 3.5 In addition, as special contractual conditions of execution, the borrower will fulfill the following conditions: (i) within 90 days after the entry into force of the loan contract, present evidence to the Bank that a firm has been hired to support program management; (ii) prior to the start of execution of each work financed with program resources, present evidence to the Bank that a firm has been hired to conduct the technical and environmental supervision of the respective work; and (iii) the period for the physical commencement of program works will be four years from the entry into force of the loan contract. The objective is to strengthen the PEU's capacities and to transfer knowledge, particularly in relation to Bank policies and the execution of programs financed by international organizations. The firm responsible for supervision will be crucial in allowing the borrower to adequately monitor the progress of works and socioenvironmental actions. The work of the firm providing support for program management and works supervision will be coordinated by the PEU general coordinator, who will be responsible for approving execution reports on the work carried out. The general coordinator will be supported in this task by the coordinators for urban development, environmental, and social issues. The deadline for physical commencement of the works has been set to ensure that the program will be executed in accordance with the disbursement period, while giving the borrower the flexibility needed to execute all program works.
- 3.6 The program Operating Regulations will contain a detailed description of the arrangements for program coordination and execution. **As a special contractual condition precedent to the first disbursement of the loan, the borrower will provide evidence of the approval of the program Operating Regulations and the Environmental and Social Management Framework (ESMF) in accordance with the terms previously agreed upon with the Bank.** The approval of the program Operating Regulations is an essential condition for fulfillment of the program's eligibility criteria and environmental and social safeguards. Annex III lists the special fiduciary conditions precedent to the first disbursement of the loan.
- 3.7 **Advance of funds.** The Bank will advance funds to satisfy the program's actual liquidity needs. To that end, advances of funds will be requested by the Municipality of João Pessoa through the PEU by submitting disbursement requests accompanied by the corresponding financial plan for the program. The first financial plan—covering the first six months of execution—will be based on this initial plan and used to determine the first advance of funds. For future advances, at least 80% of the funds received must be accounted for and a new financial plan must be presented for the subsequent period.
- 3.8 **Procurement of works, goods, and services.** Consulting services will be procured in accordance with the policy for the procurement of goods and works financed by the Bank (document GN-2349-9) and the policy for the selection and contracting of consultants financed by the Bank (document GN-2350-9). Contracts for works,

goods, and services are set out in the procurement plan ([required electronic link 4](#)); these will be governed by the fiduciary agreements and requirements (Annex III). The period for commencing works financed with loan proceeds will be four years from the effective date of the loan contract.

- 3.9 **Recognition of expenditures.** A partial exception is proposed with respect to the Bank's policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1) to allow the Bank to recognize expenditures associated with the financing of the four housing developments (Colinas de Gramame, São José, Saturnino de Brito, and Vista Alegre) that are incurred by the borrower using resources from the local counterpart contribution prior to the project profile approval date (15 May 2017) but during the 18-month period prior to approval of the loan proposal. Accordingly, the Bank may recognize a maximum of US\$57.6 million in expenditures against the local counterpart contribution (57.6% of the total local counterpart contribution), as long as procedures substantially similar to those set out in the loan contract have been followed.
- 3.10 The proposed partial exception to the policy set out in document GN-2259-1 is based on the fact that preparation and approval of this program was originally planned for 2016. The borrower decided not to postpone the start of activities and incurred expenditures that it had planned for the program using federal resources. It should be noted that the amount of expenditures to be retroactively recognized against the local counterpart contribution is needed for the Municipality of João Pessoa to comply with the federal government's requirement that municipalities contribute local funding equal in value to the loan (50%-50%).
- 3.11 **Audit.** For the duration of the disbursement period, and within 120 days of the end of each of the borrower's fiscal years, the borrower will submit annual program financial statements audited by a firm of independent external auditors acceptable to the Bank and/or by the Tribunal de Contas in the state of Paraíba. The last of these reports will be presented within 120 days after the date of the last disbursement.

B. Summary of arrangements for monitoring results

- 3.12 **Monitoring and evaluation system.** The program's schedule of physical and financial progress, annual work plan, procurement plan, and results matrix will all be used to ensure satisfactory program monitoring. The PEU will also prepare semiannual progress reports that will include the information necessary to complete the program monitoring report based on the indicators in the results matrix. The PEU will have a management system containing the information necessary to monitor the program.
- 3.13 **Program evaluation.** This program has both outcome and output indicators, and these will be evaluated based on available information from the PEU, the municipal departments involved in execution, and specific surveys commissioned from specialized firms. Evaluation of the results and indicators will take place at three junctures: at the beginning of the program, halfway through the execution period, and once execution has been completed. The monitoring and evaluation plan ([required electronic link 2](#)) includes: (i) all impact, outcome, and output indicators, including their description, calculation method, and time frames for data collection and measurement; (ii) responsible parties; (iii) budget for the monitoring activities; and (iv) evaluation.

- 3.14 The evaluation activities include: (i) midterm and final evaluations; and (ii) an ex post cost-benefit evaluation (see the monitoring and evaluation plan, ([required electronic link 2](#))). The midterm evaluation will be conducted 36 months after the effective date of the loan contract, or once 50% of the loan proceeds have been disbursed, whichever occurs first. The final evaluation and the ex post economic evaluation will be conducted simultaneously once 90% of the loan proceeds have been disbursed. Two evaluation methodologies will be used: (i) difference-in-differences for the property value indicator and for the ex post economic evaluation; and (ii) the reflexive methodology for the remaining indicators, comparing results before and after the interventions. A budget of US\$297,000 has been agreed upon with the Municipality of João Pessoa to cover the program evaluations.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Property value within project area of influence (% change)* -Households benefitting from housing solutions (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Households protected from flood risk (#)* -Subnational governments benefited by decentralization, fiscal management and institutional capacity projects (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2850	i) Expand and improve water supply and basic sanitation, and ii) Enhance efficiency in the management of public resources.
Country Program Results Matrix	GN-2884	The intervention is included in the 2017 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	2.4	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0	
4.2 Identified and Quantified Benefits	1.5	
4.3 Identified and Quantified Costs	1.5	
4.4 Reasonable Assumptions	1.5	
4.5 Sensitivity Analysis	1.5	
5. Monitoring and Evaluation	7.2	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	4.7	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation		
Environmental & social risk classification	A	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Gender Equality		
Labor		
Environment		
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		
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The project seeks to support sustainable urban development in the Municipality of João Pessoa through housing solutions, provision of public services and strengthening of planning and municipal urban management. The loan document proposes (i) strengthening urban planning and management tools; (ii) increasing access to housing for vulnerable families; (iii) improving the quality of life in informal settlements; and (iv) increasing the efficiency of the management of municipal fiscal resources.

The loan proposal and the corresponding annexes present a solid diagnosis of the problems and their determinants, which are consistent with the proposed interventions. The project is supported by information from empirical data, evaluations of similar projects and information on the Bank's experiences in the sector.

The results matrix is derived from the determination of the products associated with both urban development and strengthening of public management. The results and associated impacts lead to a clear vertical logic. The presented indicators are SMART.

The project includes a cost-benefit analysis that quantifies the economic benefits derived from resettlement and real estate valuation of the area of influence of the project obtained from a study of hedonic prices. The results show positive current values and internal rates of return above 12%. The analysis presents different sensitivity scenarios.

The monitoring plan details the monitoring instruments that will be used. The evaluation plan is based on an ex post economic analysis, including data collection methodology, work plan and assigned budget.

RESULTS MATRIX

Project objective:	The overall objective of the program is to promote sustainable urban development in the municipality of João Pessoa (MJP) through the strengthening of municipal planning and urban public management, as well as comprehensive and/or demonstration interventions for vulnerable families. The specific objectives are: (i) to strengthen urban management and planning tools; (ii) to increase access to quality low-income housing, infrastructure, and urban amenities for vulnerable families; (iii) to improve the quality of life in informal settlements by mitigating socioenvironmental risks and improving habitat in projects with potential for replication; and (iv) to increase efficiency in the management of municipal fiscal resources by strengthening administrative procedures, training, and modernizing information technology (IT) equipment.
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EXPECTED IMPACTS

Impact Indicators	Unit of measurement	Base line	Baseline Year	Final target	Target Year ¹	Means of Verification	Comments
Average property values in the middle region of the Jaguaribe River	%	0	2016	40%	2023	Ex post economic evaluation	
Increase in fiscal sustainability in the municipio	%	0	2016	(*)	2023	MJP Fiscal Report	(*) See item 3.5 of the PEM

EXPECTED OUTCOMES

Outcome indicators	Unit of measurement	Base line	Baseline Year	Final target	Target Year	Means of Verification	Comments
Families benefiting from housing solutions in the municipality of João Pessoa	Families	0	2016	4,234	2023	Report of the Social Team	
Reduction in the housing deficit for the low-income population in the municipality of João Pessoa	%	100	2016	83.0	2023	Report of the Social Team and the Local Low-Income Housing Plan (PLHIS)	
Families benefiting from supplementary infrastructure	Families	0	2016	850	2023	Works Report (PEU)	See item 3.15.3 of the PEM
Houses titled to female heads of household in the middle region of the Jaguaribe River	Houses titled	0	2016	320	2023	Titling records of properties issued to female heads of household	Gender Indicator
Average emergency response time, SAMU	Minutes	34.09	2016	29.0	2023	SAMU Management Report	
Increase in property tax collections	%	0	2016	20	2023	MJP accounts	
Valuation of the municipality of João Pessoa's real property holdings	%	0	2016	70	2023	MJP accounts	

¹ First half of 2023.

OUTPUTS

Indicators	Unit of measurement	Base line	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 (6 months)	Final target	Means of Verification	Comments
COMPONENT I. SUSTAINABLE URBAN DEVELOPMENT AND CITY MANAGEMENT												
Housing units built	Housing units	0	2017	1,074	400	400	400	675	-	2,949	Works Report (PEU)	
Supplementary infrastructure built in the Beira River region	M2							(**)	-	(**)	Works Report (PEU)	See item 2.14.2 of the MEP
Park built beside the Jaguaribe River	Park	0	2017	-	-	-	-	-	1	1	Works Report (PEU)	
Local social services offices in operation	Office	0	2017	-	4	-	-	-	-	4	Semiannual report (PEU)	
Land regularization processes implemented	Number of titles	0	2017	-	-	-	-	1,109	-	1,109	Property titles issued	
Roger dump rehabilitated	Unit	0	2017	-	-	-	-	-	1	1	Works Report (PEU)	
Master Plan updated	Plan	0	2017	-	-	1	-	-	-	1	Decree or Law published (PEU)	
Urban densification regulation prepared	Regulation	0	2017	-	1	-	-	-	-	1	Regulation published (PEU)	
Sustainable habitat study delivered	Study	0	2017	-	1	-	-	-	-	1	Technical approval (PEU)	
Legal framework for land use and occupation prepared	Legal framework	0	2017	-	-	-	1	-	-	1	Technical approval (PEU)	
Action Plan for the Development of a Low-Carbon Economy prepared	Plan	0	2017	-	-	1	-	-	-	1	Technical approval (PEU)	
Municipal Risk Reduction Plan prepared	Plan	0	2017	-	-	1	-	-	-	1	Technical approval (PEU)	
Action Plan for Economic Development in the communities of the CBR region prepared	Plan	0	2017	-	-	-	-	-	1	1	Technical approval (PEU)	
City Cooperation Center operating	Center	0	2017	-	-	-	1	-	-	1	CCC Operations Report	
Basic and detailed designs prepared for the works planned under the program	Projects	0	2017	-	1	-	3	-	-	4	Technical approval (PEU)	

(**) Studies undertaken in 2018 will allow updating of the available information and a more precise estimate of the targets.

Indicators	Unit of measurement	Base line	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 (6 months)	Final target	Means of Verification	Comments
COMPONENT II. STRENGTHENING OF MUNICIPAL PUBLIC MANAGEMENT												
Departments with restructuring plans implemented	Departments	0	2017	-	-	-	-	-	10	10	Monitoring reports (PEU)	
Cadastre of property values updated	Plans	0	2017	-	-	1	-	-	-	1	Monitoring reports (PEU)	
Taxpayer Management Model implemented	System	0	2017	-	-	-	1	-	-	1	Monitoring reports (PEU)	
Collections Model implemented	System	0	2017	-	-	1	-	-	-	1	Monitoring reports (PEU)	
Tax Administration System implemented	System	0	2017	-	-	-	-	1	-	1	Monitoring reports (PEU)	
Asset Management Model implemented	System	0	2017	-	-	-	-	1	-	1	Monitoring reports (PEU)	
School of Government implemented	Unit	0	2017	-	-	1	-	-	-	1	Monitoring reports (PEU)	
Procurement Management Model implemented	System	0	2017	-	-	-	-	1	-	1	Monitoring reports (PEU)	
Fiscal Education Program implemented	Program	0	2017	-	-	-	-	1	-	1	Monitoring reports (PEU)	
Fiscal Intelligence Model implemented	Model	0	2017	-	-	-	1	-	-	1	Monitoring reports (PEU)	
Electronic document processing system implemented in the MJP	System	0	2017	-	-	-	-	1	-	1	Monitoring reports (PEU)	
Financial and accounting management system implemented	System	0	2017	-	-	-	1	-	-	1	Monitoring reports (PEU)	
Social assistance modernization studies prepared	Study	0	2017	-	-	-	1	-	-	1	Monitoring reports (PEU)	
Response system for the Civil Defense Department implemented	Study	0	2017	-	-	-	1	-	-	1	Monitoring reports (PEU)	
Physical IT infrastructure perfected	Unit	0	2017	-	-	-	-	(**)	-	(**)	Monitoring reports (PEU)	Item 2.15.15 of the PEM
Monitoring and security service system implemented for the introduction of a firewall in the MJP	System	0	2017	-	-	-	1	-	-	1	Monitoring reports (PEU)	
Data Center built and operating	Data Center	0	2017	-	-	-	-	-	1	1	Monitoring reports (PEU)	

(**) Studies undertaken in 2018 will allow updating of the available information and a more precise estimate of the targets.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil

Project number: BR-L1421

Name: Integrated Sustainable Urban Development Program for the Municipality of João Pessoa

Executing agency: Municipality of João Pessoa

Fiduciary team: Carlos Carpizo and Edwin Tachlian-Degras (FMP/CBR)

I. EXECUTIVE SUMMARY

- 1.1 The institutional assessment for fiduciary management of the program was based on (i) the current fiduciary context of the country; (ii) an assessment of the main fiduciary risks; (iii) an institutional capacity assessment; and (iv) joint working sessions of the IDB team and the Municipality of João Pessoa (MJP). This effort has yielded fiduciary agreements for the execution of financial management and program procurement.

II. FIDUCIARY CONTEXT OF THE COUNTRY AND THE EXECUTING AGENCY

- 2.1 Brazil's fiduciary systems have been strengthened significantly across all levels of federal, state, and municipal government in recent years, allowing for effective management of administrative, financial, and procurement processes in general compliance with principles of transparency, economy, and efficiency. The Bank also recognizes that the use of country fiduciary systems—mainly at the municipal level—entails initial risks until such time as these systems are completely adjusted to international standards. Accordingly, the Bank has been supporting the strengthening and ongoing refinement of these systems.
- 2.2 In the case of this operation, the borrower and executing agency will be the Municipality of João Pessoa. A Project Execution Unit (PEU) will be created within the municipal government, and this will be responsible for coordinating, planning, monitoring, and executing program activities.
- 2.3 With respect to the procurement of goods and services, the Department of Administration (SEAD) will be responsible for the following activities, among others: (i) arranging bidding processes for the purchase of items necessary for municipal activities (consumer and durable goods, services); and (ii) conducting activities related to the registration, inventory, protection, and conservation of the municipality's real estate and movable assets.
- 2.4 SEAD's permanent bid committee is responsible for carrying out these processes. The Municipality of João Pessoa also has eight sector bid committees in (i) the

- Department of Planning (SEPLAN); (ii) the Department of Infrastructure (SEINFRA); (iii) the Executive Superintendency for Urban Mobility (SEMOB); (iv) the Social Security Institute (IPEM); (v) the João Pessoa Cultural Foundation (FUNJOPE); (vi) the Department of Health; (vii) the Department of Education; and (viii) the Superintendency for Urban Sanitation (EMLURB).
- 2.5 The Municipality of João Pessoa recently created a Central Procurement Unit linked to SEAD. Each sector initiates the procurement processes for their own activities, encompassing a request to meet their needs, consistent with current legislation (Law 8,666 of 1993), and the corresponding control; these are remitted to the Municipal Agency for the Regulation of Delegated Services (ARSER), which is attached to the Municipal Department for the Economy (SEMEC).
- 2.6 External control in the case of the Municipality of João Pessoa is exercised by the Court of Accounts of the State of Paraíba (TCE/PB), which conducts an annual audit of the municipality's accounts, and by the National Court of Accounts (TCU) in the case of federal transfers. The TCE/PB is a subsidiary body of the legislative branch, and it is responsible for evaluating results in terms of efficiency and effectiveness in financial management, budgeting, accounting, and operational and asset management in the entities that fall under its purview. It is also responsible for monitoring the execution of programs, projects, and activities financed with budgetary and extrabudgetary resources.
- 2.7 In relation to internal control, the Municipality of João Pessoa replaced the Department of Public Transparency (SETRANSP) with the Municipal Department of the Comptroller General (CGM), which comprises three Executive Secretariats (Municipal Ombudsperson, Participatory Budgeting, and Public Transparency) and two Directorates (Oversight of the Direct Administration and Oversight of Autonomous Entities). The CGM's mission is to exercise control over public funds and ensure their correct application, and it takes preventive action to combat corruption and administrative impropriety. It is also responsible for accounting, financial, and budgetary inspections of all municipal departments and bodies. In the case of municipal administrators, the CGM conducts analyses and issues technical notes regarding the legality of their actions.

III. ASSESSMENT OF INSTITUTIONAL CAPACITY, FIDUCIARY RISK, AND MITIGATION ACTIONS

- 3.1 The results of the analyses undertaken (ICAS and PRM) showed that the Municipality of João Pessoa is subject to a medium level of fiduciary risk due to its lack of experience in executing Bank projects. This may lead to difficulties in procurement and contracts for works and studies. Notwithstanding this issue, municipal processes are satisfactory for the purposes of project execution. The following mitigation actions are proposed to avoid execution delays: (i) creation of the PEU and the appointment of PEU staff and those responsible for technical execution; (ii) creation of a cross-sector management committee; (iii) preparation and publication of program Operating Regulations that describe the workflows and responsibilities of the entities involved in execution; (iv) hiring of a management firm to support the PEU with program management and administration (see [rationale](#)); (v) creation and training of a special bid committee; and (vi) training for the team responsible for program execution (PEU and special bid committee), covering the

preparation of disbursement requests and the IDB's procurement policies. Training is of critical importance given the municipality's lack of experience with loans from international organizations.

IV. CONSIDERATIONS FOR THE CONTRACTUAL CLAUSES (FIDUCIARY)

- 4.1 Condition precedent to first disbursement under the loan: To ensure that the executing agency is sufficiently prepared to begin program execution according to the established timetable, **as a special condition precedent to the first loan disbursement, evidence will be provided of the publication in the Municipality of João Pessoa official gazette of the decree creating the special bid committee for the program and appointing its members.** The special bid committee, which is specific to the program, is considered essential for procurement processes to be carried out in an efficient and timely manner.
- 4.2 **Management of disbursements.** The executing agency will submit the financial plan for the program consistent with the guidelines agreed between the Bank and the country. The minimum percentage required for a new advance of funds will be 80%.
- 4.3 **Exchange rate.** For the purposes of the activities stipulated in Article 4.10 of the general conditions of the loan contract, the parties agree that the applicable exchange rate will be the one indicated in subparagraph (b)(i) of said Article. For the purposes of determining the equivalent value of expenditures incurred in local currency against the local counterpart contribution, the agreed exchange rate will be that prevailing on the effective date on which the executing agency, or any other natural or legal person to whom the authority to incur expenditures has been delegated, makes the respective payments to a contractor, supplier, or beneficiary. In addition, for purposes of determining the equivalent value of reimbursements of expenses charged to the loan, the agreed exchange rate will be the purchase rate set by the Central Bank of Brazil on the day before the date of the disbursement request.
- 4.4 **Financial supervision.** Audited annual financial statements for the program will be prepared by external auditors eligible for Bank programs in accordance with the terms of reference agreed with the IDB, and submitted within a period of 120 days after the close of the fiscal year.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** Procurement will be conducted through the PEU with the support of a special bid committee. The procurement of goods, works, and nonconsulting services will be carried out using Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9, March 2011). The selection and contracting of consultants will be carried out using the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9, March 2011). The Bank will review procurement processes as established in the [Procurement Plan](#).
- 5.2 **Procurement of works, goods, and nonconsulting services.** Program-related contracts for works, goods, and nonconsulting services¹ subject to international

¹ Under the IDB's procurement policies, the treatment of nonconsulting services is similar to that of goods.

competitive bidding (ICB) will be carried out using the standard bidding documents issued by the Bank. Contracts subject to national competitive bidding (NCB) will be carried out using national bidding documents agreed with the Bank (or accepted as satisfactory by the Bank if no agreement has been reached).

- 5.3 **Use of country systems.** For the procurement of commonly-used goods and services up to the threshold for shopping (US\$5 million), the Bank will accept the use of the reverse electronic auction systems in the ComprasNet system of the federal government's procurement portal, as well as Banco do Brasil's e-Licitações system. Any system or subsystem that is subsequently approved will also be applicable to the operation. The Procurement Plan for the operation and its updates will indicate that contracts will be executed using approved country systems.
- 5.4 **Selection and contracting of consultants.** Contracts for consulting services under the project will be executed using the standard request for proposals issued by the Bank. The review of technical specifications for contracts during the preparation of the selection processes is the responsibility of the sector specialist.
- 5.5 **Main procurements**

Activities	Procurement or selection method	Estimated Date	Estimated Cost US\$
Works			
Establishment of the City Cooperation Center - CCC (turnkey)	NCB	May 2018	18,184,375
Construction works for the 675 housing units and two community amenities (courts, child education center, schools, and social services offices)	NCB	February 2019	16,835,938
Infrastructure works in the area of intervention	NCB	June 2019	15,687,986
Consulting firms			
Implementation of the Involuntary Resettlement Plan.	QCBS	January 2018	4,796,875
Contracting of a consulting firm to provide technical support to the PEU	QCBS	January 2018	5,000,000

- 5.6 **Recognition of expenditures.** A partial exception is proposed with respect to the Bank's policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1) to allow the Bank to recognize expenditures associated with the financing of the four housing developments (Colinas de Gramame, São José, Saturnino de Brito, and Vista Alegre) that are incurred by the borrower using resources from the local counterpart contribution prior to the project profile approval date (15 May 2017) but during the 18-month period prior to approval of the loan proposal. Accordingly, the Bank may recognize a maximum of US\$57.6 million in expenditures against the local counterpart contribution (57.6% of the total local counterpart contribution), as long as procedures substantially similar to those set out in the loan contract have been followed.
- 5.7 **Procurement supervision.** The procurement supervision method will be defined by the Bank. It will be ex post, with the exception of those cases in which ex ante supervision is justified. The first process for each type of procurement process will

be subject to prior supervision by the Bank. Ex post supervision will be used thereafter up to the following thresholds.

Threshold for ex post review		
Works	Goods	Consulting services
US\$25,000,000	US\$5,000,000	US\$1,000,000

- 5.8 Ex post reviews will be conducted every 12 months in accordance with the project supervision plan. Reports on the ex post reviews will include at least one physical inspection visit,² selected from among the procurement processes subject to ex post review.
- 5.9 Where procurement is executed through the national system, supervision will also be carried out through the country system.³

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

A. Programming and budget

- 6.1 The Municipality of João Pessoa, through the PEU, will be responsible for planning the execution of activities based on the contents of the program execution plan (PEP), budgets, and the annual work plan. The budget for program activities will be approved through the municipal budget law.
- 6.2 The Department of Finance (SEFIN) is responsible for executing the municipal budget, while SEPLAN is responsible for financial programming and monitoring budget execution. The Department of Finance and SEPLAN will jointly ensure that budgetary resources for the program—both the Bank's contribution and local counterpart funds—are budgeted each year as planned, and secured for execution consistent with the operational program. Accordingly, coordination between the PEU and these two departments will be of critical importance.

B. Disbursements and cash management

- 6.3 Program funds will be disbursed to an account designated by the Municipality of João Pessoa, which will be used exclusively for program execution.
- 6.4 Loan disbursements will be made in U.S. dollars in the form of advances of funds. Requests for advances of funds will be based on the project's actual liquidity needs over a period of up to six months, as documented in the financial plan. For each advance of funds (with the exception of the first), at least 80% of previously advanced funds must be accounted for.
- 6.5 Expenditures deemed ineligible by the Bank must be repaid using proceeds from the local contribution or other resources at the Bank's discretion, depending on the nature of the ineligibility.

² The inspection verifies the existence of procurement processes, leaving the verification of quality and compliance with specifications to the sector specialist.

³ Depending on the extent of use of the system, supervision may be supplemented through project audits; in this case, reference will be made to the fact in this annex.

- 6.6 Disbursement controls and verification will be conducted by the IDB on an ex post basis.

C. Accounting, information systems, and reporting

- 6.7 The Municipality of João Pessoa uses the Orca-Web system to integrate recording and monitoring activities for the budget, accounting, and financial management.
- 6.8 In relation to the loan operation, all accounting and financial information for the program will be registered in the Orca-Web system. Adjustments to the system will be necessary to allow the automatic generation of project financial reports in U.S. dollars by investment category and source of funding, in line with the IDB's requirements.
- 6.9 With six months after the loan contract has been signed, the PEU will demonstrate that the reporting and financial information module for the program has been implemented and is operating effectively within the Orca-Web system, or that commercial software has been procured that meets the same requirements.

D. External control and reports

- 6.10 External control will be exercised by the TCE-PB or by a previously selected independent external audit firm to be hired in accordance with the Bank's specific policy and procedures for this purpose.
- 6.11 At the time program execution begins, an independent external audit firm will be hired if the TCB/PB indicates that its human and operational resources are insufficient to undertake external audit activities.
- 6.12 Within 120 days after the close of each of the executing agency's fiscal years, the project must submit duly audited financial statements to the Bank, in accordance with the procedures and terms of reference previously agreed with the IDB.

E. Supervision plan

- 6.13 The supervision plan may be amended during project execution in response to changes in observed risk circumstances or if the Bank determines the need for additional control measures.

Supervision activity	Supervision Plan			
	Nature - scope	Frequency	Responsible party	
			Bank	Executing agency
Procurement	Review of procurement processes for works and consulting services	As indicated in the procurement plan	Sector and procurement specialists	PEU/MJP
	Review of processes above thresholds for international competitive bidding and direct contracting	Throughout the execution period	Sector and procurement specialists	PEU/MJP
	Supervision visit	Annual	Sector specialist and fiduciary team	
Financial	Ex post disbursement and procurement review	Annual	Fiduciary team	PEU – Audit firm
	Annual audit	Annual	Fiduciary team	Audit firm
	Review of disbursement requests	Periodic	Fiduciary team	
	Supervision visit	Annual	Sector specialist and fiduciary team	

F. Execution mechanism

- 6.14 The executing agency will be the Municipality of João Pessoa, and it will create a PEU that will be jointly responsible, alongside the Bank, for preparing, managing, and monitoring program activities. The PEU will be responsible for institutional and technical coordination of the operation, and it will consist of a multidisciplinary team to be appointed.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/17

Brazil. Loan ____/OC-BR to the Municipality of João Pessoa
Integrated Sustainable Urban Development Program
for the Municipality of João Pessoa

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 João Pessoa, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Integrated Sustainable Urban Development Program for the Municipality of João Pessoa. Such financing will be for an amount of up to US\$100,000,000 from the Ordinary Capital resources of the Bank, 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 ____ 2017)