

**BRAZIL**

**PROCIDADES - ARACAJU**

**INTEGRATED URBAN DEVELOPMENT AND SOCIAL INCLUSION  
PROGRAM OF ARACAJU**

**(BR-L1084)**

**LOAN PROPOSAL**

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<b>REQUIRED</b>	
1.	Annual work plan (AWP) <a href="#">IDBDOCS1599419</a>
2.	Program Environmental Report (PER) Environmental analysis and environmental management strategies for the program <a href="#">IDBDOCS1592129</a>
3.	Monitoring and Evaluation Arrangements <a href="#">IDBDOCS1592413</a>
4.	Resettlement Plan <a href="#">IDBDOCS1597567</a>
5.	Procurement Plan <a href="#">IDBDOCS1599050</a>
<b>OPTIONAL</b>	
1.	Economic Viability Study Outcomes of projects from the representative sample <a href="#">IDBDOCS1594596</a>
2.	Institutional and Financial Analysis Outcomes of institutional capacity evaluation of the environmental management plan (PMA) and fiduciary analysis of the program <a href="#">IDBDOCS1592314</a>
3.	Operating Regulations of the Integrated Urban Development Component <a href="#">IDBDOCS1599743</a>

## ABBREVIATIONS

CRAS	Centro de Referência de Assistência Social [Social Assistance Resource Center]
DESO	Companhia de Saneamento de Sergipe [Sergipe Sanitation Company]
EMURB	Empresa Municipal de Obras e Urbanização [Municipal Works and Urban Development Company]
ESMR	Environmental and Social Management Report
FUNDAT	Fundação do Trabalho [Labor Foundation]
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
OC	Ordinary Capital
PDDU	Plano Diretor de Desenvolvimento Urbano [Urban Development Master Plan]
PER	Program Environmental Report
PMA	Prefeitura Municipal de Aracaju [Aracaju Municipal Government]
PMU	Program Management Unit
PRAT	Project Risk Assessment Tool
RAA	Relatório de Avaliação Ambiental [Environmental Assessment Report]
SEMASC	Secretaria Municipal de Assistência Social [Municipal Social Assistance Department]
SEPLAN	Secretaria Municipal de Planejamento [Municipal Planning Department]
SMTT	Superintendência Municipal de Trânsito e Transporte [Municipal Traffic and Transportation Superintendency]
UNDP	United Nations Development Programme



## I. DESCRIPTION AND RESULTS MONITORING

### A. Background

- 1.1 **The município.** Aracaju is the capital and economic hub of the state of Sergipe, located in northeastern Brazil. The município has a totally urban population of 520,300 residents and covers 181 km<sup>2</sup> of territory, which equates to an average population density of 2,860 inhabitants per square kilometer.<sup>1</sup>
- 1.2 Aracaju is the seat of state government, and is where the state's social services and tertiary sector are based. The city also anchors a metropolitan area that contains four municípios and 760,000 inhabitants—40% of the state's population—and has been posting solid growth. For example, between 2002 and 2005 the município's gross domestic product (GDP) grew 21% and accounted for 37% of the state's GDP. In 2005 the município's GDP was R\$5.022 billion, with the service sector accounting for 80% of this total.
- 1.3 Aracaju has a municipal human development index of 0.79, which is considered to fall within a medium range, placing it first in the state and 15th among Brazilian state capitals.<sup>2</sup> Still, there is significant inequality in the distribution of income in the município, with a Gini coefficient of 0.64 compared with the national average of 0.59.<sup>3</sup> By contrast, the last three years have seen expanded coverage of municipal services: water service has been extended to 96% of all households, sewage service increased its coverage rate from 86% to 93%, and garbage collection service increased its coverage rate from 82% to 96%.<sup>4</sup>
- 1.4 The Aracaju area began to be settled in 1855 due to the need for a new port at the mouth of the Sergipe River. The city was built at sea level on lakes and marshland, and therefore is flood-prone. Its urban growth accelerated in the 1950s and 1960s after the construction of coastal highway BR-101 and with the influx of migrants generated by the start of oil drilling. During those decades, the município's population grew at an annual rate of 2.4%. This rate slowed to 1.6% in the 1990s, though it is still above the nationwide growth rate of 1.5%.

### B. Main urban problems

- 1.5 **Underserved neighborhoods.** Rapid, unplanned urban development has led to a pattern of unequal, disjointed growth. Regular neighborhoods with access to a full range of public services coexist with newly settled neighborhoods, which are usually unregulated and lack urban and social services. The areas of unregulated settlement in the city are located along the Sal, Vaza-Barris, and Poxim rivers and in the foothills, which are areas restricted to settlement. This poses an environmental risk to those rivers and for the people living in these areas. There are

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<sup>1</sup> 2007 data from the Brazilian Institute of Statistics and Geography (IBGE).

<sup>2</sup> The national average human development index at the municipal level is 0.69. United Nations Development Programme (UNDP), 2000.

<sup>3</sup> UNDP, 2003.

<sup>4</sup> Aracaju municipal government, 2007.

- currently 72 unregulated settlement areas in the north and southwest, comprising 15% of the city's population. The most underserved neighborhoods include Coqueiral, Santa Maria, and Lameirão. These neighborhoods are characterized by a low-income population (most of whom make less than three times the minimum monthly wage), drainage problems, and a lack of paved roads. Housing units in these neighborhoods also lack sewage service, and more than 50% do not have potable water. These neighborhoods also lack social infrastructure, such as schools, childhood education centers, and Social Assistance Resource Centers.
- 1.6 **The historic city center.** The main problems for Aracaju's historic city center stem from its lost status as the seat of state and municipal government and the loss of higher-end commercial activity and higher-income residents to other parts of the city. For example, in the 1990s the population of the city center fell by 20%, from 10,064 in 1990 to 8,146 in 2000.<sup>5</sup> The city center is now primarily home to lower-income business activity and services and aged residential areas. It needs a variety of interventions and initiatives to help revitalize it, restore its vibrant commercial and residential mix, and enable it to play a leading role in cultural activities.
- 1.7 Though most of the public buildings in the city center are in good condition, some need repairs for maintenance reasons and to help improve the local urban environment. One building in need of physical repairs and expansion is known as *Estação Cidadã* [Citizen Station], which is one of the best-known landmarks in the city center. This building is home to the social assistance municipal councils, which work to protect vulnerable populations such as children and adolescents, the disabled, and the elderly.<sup>6</sup> Various services are offered at this building, such as counseling, referrals to specific programs, and training. Expansion of this building has been set as a priority, to help it retain its central role in the município and also to help improve the urban environment of the city center.
- 1.8 Another problem facing the historic city center is the presence of low-income people living in the streets. According to a recent study by the Municipal Social Assistance Department (SEMASC), the historic city center contains 75% of the município's homeless population.<sup>7</sup> To better serve this population and to make the area safer, SEMASC has set up a shelter for the population living in the streets of the historic city center. The Acolher shelter serves an average of 35 people a month, who receive shelter as well as health care and social services to help them reintegrate into their families and society. Space, however, is extremely tight at the current building, and a new building needs to be purchased and adapted to serve more people and provide a safer, more spacious place.

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<sup>5</sup> Census data, IBGE, 2000.

<sup>6</sup> The seven municipal councils that are based at Citizen Station are the Municipal Social Assistance Council, the Child and Adolescent Rights Council, the Council for Persons with Disabilities, the Council for the Elderly, the Women's Rights Council, the Food Security Council, and the "Bolsa Família" Program agent.

<sup>7</sup> According to SEMASC data from 2007, approximately 400 homeless people live on the streets of the município.

- 1.9 **Urban mobility.** Aracaju has an efficient, well-developed public transportation system, similar to that in Curitiba. The main weakness of the transportation system is a lack of accessibility for the southern part of the city, which is precisely the area with the greatest growth potential. But with only two main arteries between it and downtown, the area already has severe traffic problems. Since both of these roads cross the Poxim River, the possibilities for increasing connectivity with the road network are limited. Also, the car fleet has increased rapidly as a result of Brazil's economic boom, rising 25% between December 2004 and March 2008. The middle- and upper-class population and, hence, the highest ratios of vehicles per person, are in the southern part of the city near the Poxim River. This causes heavy traffic at rush hours on the very part of the road network with the least capacity to handle traffic. This exacerbates existing traffic problems.
- 1.10 **Municipal institutions.** The Aracaju municipal government (PMA) has a Mayor's Office, 11 municipal departments, two municipal companies, two foundations, the Municipal Guard, the Social Security Institute, and the General Counsel. The município has 11,962 employees—a ratio of 23 municipal servants per 1,000 residents, which is below the Brazilian average (25 per 1,000 residents). The PMA's institutional capacity is good, though the Bank's diagnostic assessment found deficiencies in human resources due to high turnover rates and a lack of technical training in senior management positions.

### C. Strategy and rationale

- 1.11 **Municipal and program strategy.** The Urban Development Master Plan (PDDU) was developed and revised in 2006 to identify the main urban problems in Aracaju and prioritize the interventions needed to address them. The main problems highlighted in this master plan include the following: (i) a lack of infrastructure and housing in the city's periphery; (ii) poor drainage and sanitation due to the unregulated settlement of environmentally at-risk areas; and (iii) bottlenecks and a lack of continuity in the city's road system. The município has also developed the "Aracaju +10" Strategic Plan, which identifies the main areas of intervention needed to improve urban conditions. This plan identifies the following priorities: (i) addressing the housing situation and the unregulated settlements; (ii) improving historical and environmental heritage; (iii) strengthening tourism-related activity; (iv) expanding coverage of the main social services; and (v) strengthening municipal government bodies.
- 1.12 Regarding the urban development of underserved neighborhoods, it should be noted that the PMA already has experience in addressing the housing problem through integrated urban development actions, public services, and the regularization of property ownership. These interventions have been under way since 2001, with the start of the Bank-financed "Habitar Brasil" program. This program provided support for the preparation of the Municipal Strategic Plan for Substandard Settlements, which identified 52 settlements as priorities for intervention. In 2003, together with Caixa Econômica Federal, the PMA also began the "Moradia Cidadã" program, which sets guidelines for action to provide low-income housing. Since

then the PMA has succeeded in the urban development and regularization of the Coroa do Meio neighborhood, which has benefited more than 3,200 families. It is now carrying out interventions in various parts of the city, which should benefit a total of 5,600 families.

- 1.13 This program will support the PMA in carrying out the priorities of the PDDU and the “Aracaju +10” Strategic Plan, especially in addressing the housing problems and the lack of urban infrastructure, improving the road system, expanding the supply of social services, preserving historical heritage assets, and strengthening municipal government. It will also complement other ongoing initiatives in housing and urban infrastructure, especially the Growth Acceleration Program, whose investments in the Nova Liberdade, Coqueiral, and Santa María neighborhoods will be part of the local counterpart for this operation.
- 1.14 **Rationale.** Given the importance of addressing the município’s most prominent problems in an integrated manner, the PMA has requested this loan operation from the Bank to serve the priority areas and sectors identified in the PDDU and in other urban planning instruments. This operation is also aligned with the Bank’s Country Strategy with Brazil, as it will help improve the living conditions of the município’s residents through urban and social interventions in the most underserved neighborhoods in the city, as well as by revitalizing the historic city center and strengthening municipal governance. The proposed program fulfills the conditions and eligibility criteria, and involves the investment sectors stipulated in the PROCIDADES lending facility.<sup>8</sup>

#### **D. Objectives, components, and costs**

- 1.15 **Objectives.** The primary objective of the program is to help enhance the quality of life of residents in the município of Aracaju by carrying out integrated urban development, social, environmental, mobility and transportation, and public management actions. The program’s specific objectives are: (i) to improve the urban-development, social, environmental, and sanitation conditions in underserved neighborhoods; (ii) to help revitalize the historic city center; (iii) to improve mobility in the city by enhancing the connectivity of the road system to reduce travel times and operating costs for both automobiles and the public transportation system; and (iv) to strengthen the institutional capacity of the PMA. The program is structured in three components.
- 1.16 **Component I: Integrated urban development (US\$35.2 million).** This component will finance a number of urban-development actions for various parts of the city, including underserved neighborhoods with unregulated settlement, new areas of urban expansion, and the historic city center. This component is structured into the following three subcomponents: (i) integrated urban development in

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<sup>8</sup> PROCIDADES (BR-L1043) is a lending facility aimed at financing integrated urban development programs for Brazilian municípios, which was approved by the Bank’s Board of Executive Directors on 10 November 2006.

- underserved neighborhoods; (ii) housing development in expansion areas; and (iii) revitalization of the historic city center.
- 1.17 The integrated urban development subcomponent will finance the provision of a package of services to underserved communities consisting of basic infrastructure works, social infrastructure, and community and social development activities. Basic infrastructure services may include water and sanitation, drainage, street paving, public lighting, environmental protection works, and urban infrastructure such as plazas and sports areas. Financing will also be provided for social infrastructure, with priority for schools, childhood education centers, and social assistance resource centers. Community and social development activities may include education on sanitation, the environment, and income generation.
- 1.18 The areas of intervention under this subcomponent were selected on the basis of a community prioritization process that took into account the degree to which the communities are underserved (infrastructural deficiencies) and their socioeconomic conditions (poverty levels), in addition to the environmental risk to which they are exposed. As a result of this process, the following communities were selected: Jetimana, Senhor do Bomfim, Nova Liberdade, and Coqueiral, which are home to a total of 3,510 families.
- 1.19 The subcomponent for housing development in expansion areas will finance the urban development of the area of Bairro Novo next to the Santa Maria neighborhood, where basic infrastructure will be provided for development of a mixed-use neighborhood with housing (for various income levels), commerce, services, public infrastructure, and green spaces. The program will finance the urban development plans, the area's management model, and infrastructure works. Incentives will be provided for private-sector participation in housing construction and management of the new neighborhood. Part of the new neighborhood will offer housing units to low-income families living in environmentally at-risk areas of the city.
- 1.20 The subcomponent for revitalizing the historic city center will finance the rehabilitation of buildings in the area that are of architectural and historical interest. Rehabilitating the most significant buildings has been set as a priority, and these buildings will be used to promote art and culture and to serve a social purpose, such as the Citizen Station building. Financing will also be provided for the purchase and provisioning of a venue to host the Acolher program, which sees to the care and social reintegration of street people in Aracaju, especially those in the historic city center (paragraph 1.8).
- 1.21 **Component II: Mobility and transportation (US\$21.9 million).** This component will finance the works to link the southern and central parts of the city to each other, called the Poxim Road Complex. These works include: (i) an approximately 180-meter-long bridge over the Poxim River with access ramps; (ii) the road connection of Iolanda Pinto de Jesus Avenue, in the Jardins neighborhood, with Alexandre Alcino Avenue; (iii) an underpass at Tancredo Neves Avenue; and

(iv) the doubling of lanes on a stretch of Alexandre Alcino Avenue. The southern portion of the new bridge will benefit from the improvements, especially in the Farolândia neighborhood, with works that will help improve traffic distribution from Caçula Barreta Avenue to Heráclito Rolemberg Avenue.

1.22 **Component III: Institutional strengthening (US\$1.4 million).** This component will finance the technical and operational strengthening of the municipal departments that are participating in program execution. To this end, financing will be provided to implement management and monitoring systems for the government departments and decentralized agencies, public and semipublic enterprises, and public foundations involved in the program (paragraph 3.4). Financing will also be provided for the Municipal Works and Urban Development Company (EMURB) and for the Municipal Planning Department (SEPLAN), the purchase of software for architectural design, measurement and monitoring of urban projects, and a geographic information system to support the registration of properties and other urban planning activities. For the Municipal Traffic and Transportation Superintendecy (SMTT), financing will be provided for a system to support the preparation of road and signage projects. Financing will also be provided for the purchase of computer equipment, training, and infrastructural improvements in these institutions and the hiring of consulting services to design and implement the aforementioned systems.

1.23 **Program administration and management (US\$1.9 million).** In addition to the components described above, the program will finance the following items, among others: (i) the hiring of a group of consultants to support program management; (ii) expenses associated with the monitoring and evaluation of program activities; and (iii) the hiring of an independent auditing firm to audit the accounting and financial records.

1.24 **Costs.** The program's costs are summarized in the following table.

**Table 1.1: Cost and financing (in thousands of US\$)**

Categories	IDB/OC	Local	Total	%
<b>I. Program administration</b>	<b>1,906</b>	<b>0</b>	<b>1,906</b>	<b>3.2</b>
1.1 Management support	1,250	0	1,250	2.1
1.2 Supervision and monitoring	156	0	156	0.3
1.3 Auditing	500	0	500	0.8
<b>II. Integrated urban development component</b>	<b>15,079</b>	<b>20,156</b>	<b>35,235</b>	<b>58.2</b>
<b>III. Mobility and transportation component</b>	<b>11,826</b>	<b>10,094</b>	<b>21,920</b>	<b>36.2</b>
<b>IV. Institutional strengthening component</b>	<b>1,439</b>	<b>0</b>	<b>1,439</b>	<b>2.4</b>
<b>Total</b>	<b>30,250</b>	<b>30,250</b>	<b>60,500</b>	<b>100</b>
%	50	50	100	

**E. Results framework with key indicators**

- 1.25 The program’s impact will be measured by the following indicators: (i) appreciation of property values in benefited areas; (ii) reduction in the number of socially and environmentally at-risk families; (iii) increase in the number of persons receiving social services; and (iv) reduction in travel times and transportation costs in the city (Annex II).

**II. FINANCING STRUCTURE AND MAIN RISKS**

**A. Financing instruments**

- 2.1 **Program resources and disbursement timetable.** The total cost of the program is US\$60.5 million, of which 50% will be financed by the Bank out of its Ordinary Capital, and the other 50% will be provided by the Município of Aracaju. The execution period will be four years, running from the date of entry into force of the loan contract. The disbursement timetable is as follows:

**Table 2.1: Disbursement timetable (US\$ million)**

Source of financing / Year	1	2	3	4	TOTAL
<b>IDB</b>	1.5	13.5	10.0	5.3	<b>30.3</b>
<b>Município de Aracaju</b>	6.0	14.4	8.1	1.7	<b>30.2</b>
<b>TOTAL per year</b>	7.5	27.9	18.1	7.0	<b>60.5</b>
<b>%</b>	<b>12.4</b>	<b>46.1</b>	<b>29.9</b>	<b>11.6</b>	<b>100</b>

- 2.2 **Financial conditions.** The Município of Aracaju has requested use of the Bank’s Local Currency Facility. This program will be carried out with resources from the Single Currency Facility in U.S. dollars from the Bank’s Ordinary Capital, and will be subject to the Operational Framework for Lending in Local Currency (document GN-2365-6). To minimize exchange risk, the Município of Aracaju will be entitled, under the terms of the Local Currency Facility, to convert disbursements and outstanding balances into Brazilian reais. Under the PROCIDADES facility, this will serve the need expressed by the Município of Aracaju to develop a public borrowing strategy featuring increasing local currency components, with resources from the Single Currency Facility of the Bank’s Ordinary Capital.

**B. Environmental and social safeguard risks**

- 2.3 To comply with the Bank’s Environment and Safeguards Policy (OP-703), a Program Environmental Report<sup>9</sup> was prepared. This report sets forth the impact mitigation and compensation and environmental control measures that can help ensure the program’s expected benefits. The report found that the program will not generate any significant negative environmental impacts, but will have some short-term, small-scale impacts associated with changes to the physical and

<sup>9</sup> Known in Portuguese as *Relatório de Avaliação Ambiental* [Environmental assessment report] (RAA).

- socioeconomic environment, such as (i) expropriation of some properties; (ii) resettlement of families affected by the program; (iii) disruption of traffic during execution of the works; (iv) noise, dust, and air pollution generated in the areas near the works; and (v) removal of a small area of mangrove swamps to build the access ramps for the bridge—an area equivalent to 2% of the total surface area of Poxim River park (95 hectares of mangrove swamps), which will be established in the area as a compensatory environmental measure.
- 2.4 In view of these factors, the program has been classified as a Category “B” operation in accordance with the aforementioned Bank Policy (OP-703). The program was reviewed by the Environmental and Social Impact Review Committee (ESR) at its meeting on 27 June 2008 (ESR-25-08) and was approved as submitted in the project profile (see attached program Environmental Report – PER).
- 2.5 To resettle the 277 families directly affected by the program (258 in Coqueiral and 19 by the Poxim River bridge works), the PMA prepared a resettlement plan in accordance with the Bank’s policy OP-710. The plan outlines various resettlement options, such as: (i) replacement housing; (ii) relocation to a nearby area; and (iii) internal transfer. The plan also details the resettlement process and identifies social actions to assist the affected population. Also detailed in the resettlement plan are actions for the remaining 2,869 families benefitting from core housing (Barrio Nuevo and Coqueiral), in areas targeted for urban development by the program (see attached link).
- C. Financial position**
- 2.6 The financial and asset analysis based on the accounting records for 2002-2007 and financial projections for the next 10 years indicate that the Município of Aracaju will be able to take on the loan with the Bank and contribute the counterpart funds needed for program implementation.
- 2.7 The Fiscal Responsibility Law (LRF) requires compliance with a number of financial indicators in order for municípios to be eligible for external borrowing and to obtain the guarantee of the Brazilian treasury. The 2004-2007 period was reviewed, as shown in the following table, which confirms that the Município of Aracaju complies with the established ceilings for all indicators reviewed.

**Table 2.2: Fiscal Responsibility Law indicators (%)**

Indicators	Ceiling	2004	2005	2006	2007
Personnel expenses / net current income (NCI)	54.0	50.1	50.7	51.3	50.3
Short-term consolidated debt / NCI	120.0	11.4	6.8	13.5	7.5
Total guarantees	22.0	16.3	13.2	17.7	14.3
Internal and external loan operations	16.0	0.5	0.0	0.0	0.0

**D. Other key issues and risks**

- 2.8 **Economic analysis.** A socioeconomic viability study was conducted for the integrated urban development component and for the transportation and mobility component. The conventional method of economic evaluations was used for interventions related to road paving and drainage in Jetimana, the Senhor do Bomfim Development, and the Nova Liberdade Development, and for the mobility and transportation component. For other interventions the evaluation was based on a cost calculation per family as an indicator of efficiency. In the analysis, benefits and costs were compared in scenarios with and without intervention.
- 2.9 To estimate the benefits of the integrated urban development component, a linear regression model was used to determine the appreciation of property values. This model yielded an average appreciation of 28.5%. For large-scale drainage projects, an additional appreciation value of 15% was used to reflect the average appreciation found in surveys of similar projects. The evaluation took into account the investment costs needed to carry out infrastructure works, as well as the estimated maintenance costs for roads and drainage systems, all of them evaluated at efficiency prices. The analyses for the three interventions show that the projects are economically viable, generating a total net present value of approximately R\$9,854 and a benefit/cost ratio of 1.4, as summarized in Table 2.3.
- 2.10 To provide infrastructure in the Coqueiral neighborhood, incremental investment and maintenance costs were analyzed in present value, per benefited family unit, for a total of 3,901 benefited families, the average cost per family was calculated at R\$6,913. To build the Santa María canal, the economic cost was estimated at present value, considering investment, operation, and maintenance, which corresponds to the lower economic cost of building the canal.

**Table 2.3: Economic cost-benefit analysis**

Paving and drainage project	Present value (thousands of R\$)				Cost/ Benefit
	Benefit	Investment	Operation and maintenance	Benefit	
Jetimana	2,547	1,567	146	833	1.5
Senhor de Bomfim	1,402	1,053	104	245	1.2
Nova Liberdade	5,904	3,683	292	1,928	1.5
Total	9,854	6,304	542	3,007	1.4

- 2.11 To evaluate the socioeconomic viability of the social infrastructure under this component, the cost effectiveness of this infrastructure was assessed. The demand for each infrastructure work was calculated, as were the related investment, operation, and maintenance costs. The outcomes of this analysis are detailed in the Socioeconomic Viability Analysis (see attached link).

- 2.12 **Viability of the mobility and transportation component.** The economic feasibility studies for the Poxim River road complex were carried out, and results show that the intervention exceeds minimum economic return criteria, with an internal rate of return of 21.8%.
- 2.13 **Fiduciary risks.** The analysis conducted with the Project Risk Assessment Tool (PRAT) concluded that the project is of moderate risk. The main risk identified is the lack of permanent, qualified personnel for program execution and procurement. To mitigate this risk, consultants will be hired to support program implementation by providing support on technical matters, procurement, and administrative and financial management of the operation (paragraph 3.1).
- 2.14 **Other risks.** The primary risk for program execution is that delays will occur in executing the urban development and housing projects financed by the Growth Acceleration Program, which are part of the counterpart. To mitigate this risk, the program will finance technical support for the PMA for execution of the Growth Acceleration Program.

### III. IMPLEMENTATION AND MANAGEMENT

#### A. Execution mechanism

- 3.1 The borrower will be the Município of Aracaju. The Federative Republic of Brazil will be the guarantor of the operation. The executing agency will be the Município of Aracaju, through SEPLAN. A Program Management Unit (PMU) has been created by official decree and will be linked to the Mayor's Office and SEPLAN.
- 3.2 The PMU will be comprised of a core team consisting of a general program coordinator and three coordinators, one for each component. These individuals will be part of the technical staff of the PMA, and will be assigned to the program on a full-time basis. The PMU will also be supported by management consultants, who will provide support for various technical and administrative/financial matters. Professionals will be assigned to the PMA's Standing Committee on Bidding Processes, who will be trained by the Bank on its procurement policies and procedures, to provide support on legal matters and carry out the procurement activity for the program. The works will be built by private companies supervised by the PMU and contracted and inspected by EMURB, which is responsible for monitoring and control of municipal works. **As a condition precedent to the first disbursement of the program, agreements must be signed between the Município of Aracaju and EMURB for the contracting and inspection of the program's works, and between the Município of Aracaju and FUNDAT for the actions under its responsibility.**
- 3.3 The PMU will coordinate and execute the various actions and interventions, as well as promote communication and integration among the entities involved in program. The PMU will act as the main interlocutor of the Município of Aracaju with the Bank. It will also be responsible for the financial and accounting management of

- the operation. The main duties of the PMU include: (i) planning of investments and budgetary coordination with the appropriate departments; (ii) evaluation of final designs of works; (iii) operation of the management and accounting systems needed to support physical and financial aspects; (iv) physical and financial control and preparation of the corresponding progress reports; (v) preparation and monitoring of the bidding processes for the works and goods and services; (vi) coordination and supervision of the plan for expropriations; (vii) support for supervision and oversight of works; (viii) coordination and supervision of social and environmental issues; (ix) control of accounting and records, submittal of disbursement requests, and rendering of accounts; (x) pursuit and coordination of compliance with contractual clauses set forth in the loan contract; (xi) monitoring and evaluation of outcomes and the targets and indicators set forth in the Results Matrix; (xii) development of annual work plans; (xiii) preparation of terms of reference for the hiring of consulting services; (xiv) drafting of all technical and administrative documentation related to bidding and contracting processes; and (xv) preparation of other reports requested by the Bank.
- 3.4 The municipal departments and public institutions that will be actively involved in program execution are SEPLAN, the SMTT, SEMASC, and FUNDAT. Each of these entities will designate, in conjunction with the PMU's general coordinator, one of its staff members to be responsible for coordinating the actions that fall under its responsibility.
- 3.5 To help enhance sector-specific coordination in implementing this operation, a program executive committee will be formed, to be chaired by the mayor and consisting of the heads of the aforementioned entities that will actively participate in executing the operation. This committee will hold regular quarterly meetings and other meetings as necessary to ensure coordination between the municipal administration bodies, to resolve any coordination conflicts across sectors, and to officially approve the annual work plans and progress reports.
- 3.6 **Mechanism for execution of the components.** The PMU will be responsible for overall coordination and supervision of program execution. The component coordinators will act as liaisons between the PMU and each of the entities involved in executing the corresponding component.
- 3.7 Execution of the integrated urban development component will be supervised by the PMU in close coordination with SEPLAN and EMURB. The Sergipe Sanitation Company (DESO) will be in charge of the works and of maintaining the sanitation works. **A condition precedent to the tendering of the works for this component is the signing and entry into force of the appropriate legal instrument, pursuant to the terms agreed upon by the Bank, between the Município of Aracaju and the firm in charge of program sanitation works and their maintenance.**
- 3.8 Specifically for the underserved neighborhood development subcomponent, SEMASC and FUNDAT will be in charge of monitoring community participation

- and environmental education. All details related to execution of this subcomponent, including eligible expenses and project eligibility criteria, institutional structure for implementation, and cost per family, are included in the Operations Manual, which is one of this document's online links. The entry into force of the Operations Manual for the component (see attached link).
- 3.9 Execution of the transportation and mobility component will be the responsibility of the PMU in close coordination with the SMTT. **A condition precedent to the tendering of the Tancredo Neves Avenue underpass is the Bank's approval of the functional studies, including the demand analyses and the capacity evaluation for the Poxim River bridge access ramps and the complementary road system, in accordance with the terms of reference set forth by the Bank.**
- 3.10 Execution of the institutional strengthening component will be coordinated by the PMU, which will work with the corresponding entities (SEPLAN, EMURB, SMTT, FUNDAT, and SEMASC) to procure the systems and needed services. The procurement of computer equipment will be the responsibility of the Information Technology Division of the Municipal Administration Department, in coordination with the PMU.
- 3.11 **Procurement.** All procurement activity will be conducted in accordance with the Bank's procurement policies and procedures. International competitive bidding will be required for works contracts with cost estimates of US\$25 million or more and for goods and related services contracts costing US\$5 million or more. National competitive bidding will be used for works contracts of at least US\$500,000 but no more than US\$25 million, and for goods contracts of at least US\$100,000 but no more than US\$5 million. Price comparison will be used for works contracts valued at less than \$500,000 and for goods contracts valued at less than \$100,000. Bidding processes for consulting contracts valued at US\$200,000 equivalent or more will be advertised internationally. For consulting contracts valued at less than US\$1 million, the shortlist of consultants may consist entirely of national consultants. Works, goods and services will be procured in accordance with this document's Procurement Plan, which is attached as Annex III.
- 3.12 **Revolving fund.** To provide resources in the form of an advance for activities financed with Bank resources, a revolving fund limited to 10% of the loan from the Bank will be established. The executing agency will submit to the Bank the semiannual report on the revolving fund within 60 calendar days after the end of each six-month period.
- 3.13 **Disbursements.** In accordance with the Operating Regulations for the PROCIDADES lending facility, supervision of this program will be carried out on a flexible basis, in view of the findings of the risk analysis (paragraph 2.13), which classified the project as moderate in risk. Operations with this level of risk call for ex post review of procurement procedures and disbursements. For this operation, however, an ex ante review procedure will be temporarily adopted for the first contracting of works for each type of investment (for example, schools and social

assistance resource centers, among others), for the first procurement of goods, as well as for the first procurement process for hiring consulting services, and for the first disbursement process, so that the Bank may guide and ensure the capacity of the PMA in such procedures. After these first procurement procedures and disbursements, the Bank may employ ex post reviews for the rest of the operation.

- 3.14 **Audits.** During execution, the PMU will submit the program's audited financial statements, 120 days after the end of each fiscal year. The program's final audit reports will be submitted within 120 days after the last disbursement.

**B. Recognition of expenditures**

- 3.15 The PMA has asked that the Bank recognize, as part of the program's local counterpart, expenses incurred in the amount of up to US\$12 million, which have been invested in the development of the operation's eligible works, projects, and consulting assignments. Such expenses will be recognized pursuant to the policy set out in document GN-2259-1 and the manual OP-504, taking into account the date of approval of the Project Profile. The procedures used for the selection and contracting of goods and services eligible for cost recognition will have followed the rules established in national legislation.

**C. Monitoring and evaluation**

- 3.16 **Monitoring system.** To ensure effective monitoring of actions throughout the project, the PMU will implement a management and financial/accounting control system that is compatible with the Bank's systems and can help monitor the program's performance indicators and outputs. These indicators are set forth in the Results Matrix (Annex II) and include: (i) monitoring of the physical progress and fulfillment of the annual targets and of specific components; (ii) evaluation of outcomes of these actions and projects; and (iii) program efficiency and effectiveness. The management system will have the same characteristics and capacity as agreed with the Bank, so that information may be shared with the PROCIDADES system to be implemented by the Bank. **Selection of this management and financial/accounting control system will be a condition precedent to the program's first disbursement. Moreover, as a special condition for execution, the executing agency will implement the program's management and financial/accounting control system within three months after the signature of the loan contract.**

- 3.17 **Midterm and final reviews.** The PMU will prepare and submit to the Bank a midterm evaluation report 90 days after the date on which 50% of the loan resources have been disbursed or 30 months into the execution period, whichever occurs first. It will also prepare and submit to the Bank a final evaluation report that will serve as input for the Project Completion Report (PCR), 90 days after 90% of the loan proceeds have been disbursed. These reports will cover: (i) the outcomes of financial execution by component; (ii) fulfillment of targets for outputs and outcomes, and progress on expected impacts, in accordance with the indicators set forth in the Results Matrix (Annex II); (iii) degree of compliance with the

environmental requirements and specifications for works, in accordance with the Environmental Assessment Report and corresponding licenses; (iv) degree of completion of operation and maintenance tasks on completed works; (v) a summary of the most significant social and environmental impacts; (vi) degree of fulfillment of contractual obligations; and (vii) a summary of the outcomes of all audits conducted during the program. Once accepted by the Bank, these two evaluation reports will be made available to the public on the website of the Aracaju municipal government. These evaluations will be conducted by consulting firms to be hired by the PMU with financing from the loan proceeds.

**D. Significant activities post approval**

- 3.18 The PMA will complete the final designs that were not included in the first year of execution, during the process of implementing the program. Therefore, as a condition precedent to the tendering of the Tancredo Neves Avenue underpass, the functional studies of the access ramps for the Poxim River bridge and the complementary road system must be submitted to the Bank (paragraph 3.9).

**RESULTS MATRIX**

<b>Overall program objective:</b>		<b>The primary objective of the program is to help enhance the quality of life of residents in the município of Aracaju by implementing integrated urban development, social and environmental, mobility and transportation, and public management actions.</b>					
<b>Outcome indicators: upon program completion</b>		<b>Baseline</b>	<b>Target</b>	<b>Comments</b>			
29% increase in the property values (value of the land) in the area in which the program directly intervenes.		R\$49/m <sup>2</sup>	R\$63/m <sup>2</sup>	Source: Municipal Department of Finance and Property Assessment Team of EMURB			
49% reduction in the number of families living in environmentally at-risk areas of the city.		3,054 families	1,506 families	Source: SEPLAN			
14% increase in the coverage of the município's basic social assistance services.		70,000 families covered	80,000 families covered	Course: SEMASC			
37% reduction in average automobile travel time (morning rush hour) along the south-center route departing from the Escola Estadual on Canal 3 and traveling along Heráclito Rolemberg up to the DIA viaduct on Tancredo Neves Avenue, which will be replaced by the new route over the Poxim River bridge and along Tancredo Neves Avenue.		9.6 minutes	6 minutes	Source: Floating vehicle study, SMTT (conducted six months after the roads are built)			
<b>Objective of Component 1</b>		<b>To carry out urban and environmental revitalization actions in at-risk areas and areas experiencing population growth, in addition to promoting the recovery of heritage assets in the historic city center.</b>					
<b>Component 1</b>	<b>Baseline</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Target</b>	<b>Comments</b>
<b>Outputs</b>							
6,037 families benefited by urban and community development interventions.	0	0	2,333	2,704	1,000	6,037	Source: SEPLAN
2 Social Assistance Resource Centers are built and are each serving at least 1,000 families a year (in Bairro Novo de Santa Maria and Coqueiral)	0	0	0	2	0	2	Source: SEMASC
Primary school built and serving 500 students and daycare center built and serving 340 children in Bairro Novo de Santa Maria.	0	0	2	0	0	2	Source: Municipal Department of Education

Nursery school built and serving 300 students in the Coqueiral neighborhood.	0	0	1	0	0	1	Source: Municipal Department of Education
Buildings rehabilitated and operational in the historic city center (Estação Cidadã, headquarters of the ACOLHER program, Cultural Center, and Maldice Teles School of Arts).	0	0	4	0	0	4	Source: SEMASC
Training courses given to at least 200 social assistance staff members at Estação Cidadã.	0	0	0	100	100	200	Source: SEMASC
<b>Objective of Component 2</b>	<b>To promote works to improve mobility and access to the southern part of the city of Aracaju.</b>						
<b>Component 2</b>	<b>Baseline</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Target</b>	<b>Comments</b>
<b>Outputs</b>							
Construction of Poxim River bridge.	0 m	0 m	180 m	0 m	0 m	180 m	Source: SMTT
Stretch of connection roads built.	0 m	0 m	0 m	4.5 km	0 m	4.5 km	Source: SMTT
<b>Objective of Component 3</b>	<b>To provide the Aracaju municipal government with sector-specific planning tools and improve its capacity for public management.</b>						
<b>Component 3</b>	<b>Baseline</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Target</b>	<b>Comments</b>
<b>Outputs</b>							
Property registration system installed and processing 50 m <sup>2</sup> per day.	0	0	1	0	0	1	Source: EMURB
Project and signal system installed at SMTT and at least 10 staff members trained in how to operate it.	0	0	0	5	5	10	Source: SMTT
Management and monitoring system installed at SEPLAN, SEMASC, and FUNDAT and at least 30 staff members trained in how to operate it (10 per institution).	0	0	10	10	10	30	Source: SEPLAN

**PROCUREMENT PLAN SUMMARY TABLE**

Ref. No.	Contract description and estimated procurement cost	Procurement method	Review (ex ante/ ex post)	Source of financing		Pre-qualification (Yes/ No)	Estimated dates	
				IDB %	Local / Other %		Publication of specific announcement	Completion of contract
<b>I. Works</b>								
1	Infrastructure for Senhor do Bonfim neighborhood (drainage and road paving and access). Estimated cost: US\$1,214,000	NCB	Ex post	89.5	10.5	No	II/2010	II/2011
2	Infrastructure for Nova Liberdade neighborhood (drainage, road paving, and canal surfacing). Estimated cost: US\$3,760,000	NCB	Ex ante	100	-	No	II/2009	II/2010
3	Dredging of Santa Maria canal. Estimated cost: US\$6,216,000	NCB	Ex ante	94.4	5.6	Yes	II/2009	II/2012
4	Construction of Social Assistance Resource Center (CRAS) in Coqueiral neighborhood. Estimated cost: US\$346,000	NCB	Ex ante	50	50	No	II/2009	II/2010
5	Construction of CRAS in Bairro Novo Estimated cost: US\$346,000	NCB	Ex post	50	50	No	II/2009	I/2011
6	Construction of municipal child education center in Bairro Novo Estimated cost: US\$972,000	NCB	Ex ante	50	50	No	II/2009	II/2011
7	Construction of municipal childhood education center in Coqueiral neighborhood Estimated cost: US\$972,000	NCB	Ex post	50	50	No	II/2009	I/2011
8	Construction of primary school in Bairro Novo Estimated cost: US\$864,000	NCB	Ex post	50	50	No	II/2009	I/2011
9	Rehabilitation of Estação Cidadã building Estimated cost: US\$326,000	NCB	Ex ante	50	50	No	I/2009	I/2010

Ref. No.	Contract description and estimated procurement cost	Procurement method	Review (ex ante/ ex post)	Source of financing		Pre-qualification (Yes/ No)	Estimated dates	
				IDB %	Local / Other %		Publication of specific announcement	Completion of contract
10	Rehabilitation of Casa da Cultura building Estimated cost: US\$1,875,000	NCB	Ex post	50	50	No	I/2009	I/2012
11	Connection of Tancredo Neves and Alexandre Alcino avenues Estimated cost: US\$11,826,000	S	Ex ante	100	0	Yes	I/2009	I/2012
12	Remodeling of space at Município's government and management school Estimated cost: US\$219,000	NCB	Ex post	100	0	No	I/2010	I/2011
<b>2. Goods</b>								
13	Purchase of properties for the Valdice Teles School of Arts and the Acolher project Estimated cost: US\$594,000	DP	Ex ante	50	50	No	I/2010	I/2010
14	Purchase of equipment and furnishings for subcomponents. Social infrastructure and Centro Novo Estimated cost: US\$92,730	PE	Ex post	50	50	No	I/2010	I/2010
15	SEPLAN furniture and equipment Estimated cost: US\$44,375	S	Ex post	100	0	No	I/2010	I/2011
16	Purchase of computer equipment for subcomponents. Social infrastructure and Centro Novo Estimated cost: US\$9,830	S	Ex post	50	50	No	I/2010	I/2010
17	Purchase of computer equipment and management software for Transportation Department Estimated cost: US\$39,000	S	Ex ante	100	0	No	I/2009	II/2009

Ref. No.	Contract description and estimated procurement cost	Procurement method	Review (ex ante/ ex post)	Source of financing		Pre-qualification (Yes/ No)	Estimated dates	
				IDB %	Local / Other %		Publication of specific announcement	Completion of contract
<b>3. Consulting assignments</b>								
18	Support for execution of Mobility and Transportation Component Estimated cost: US\$450,000	QCBS	Ex ante	100	-	Yes	I/2009	II/2012
19	Organizational structure optimization and process re-engineering Estimated cost: US\$50,000	CQS	Ex ante	100	-	Yes	I/2009	II/2010
20	Support for program management Estimated cost: US\$1,250,000	IC	Ex ante	100	-	Yes	I/2009	I/2013
21	1 consultant x 4 years x 12 months Monitoring – Phase I Estimated cost: US\$39,000	IC	Ex post	100	-	No	II/2009	I/2011
22	Monitoring – Phase II Estimated cost: US\$39,000	IC	Ex post	100	-	No	II/2011	I/2013
23	Auditing – Phase I Estimated cost: US \$39,000	QCBS	Ex post	100	-	No	II/2009	I/2011
24	Auditing – Phase II Estimated cost: US \$39,000	QCBS	Ex post	100	-	No	II/2011	I/2013
25	Consulting assignment related to structuring the public-private partnership operation in Bairro Novo Estimated cost: US\$1,641,000	QCBS	Ex ante	100	-	Yes	I/2010	II/2012
26	Consulting assignment for programming training of civil servants in government school. Estimated cost: US\$12.500	IC	Ex post	100	-	No	I/2010	I/2011
27	Consulting assignment to collect information for a georeferencing system Estimated cost: US\$142,000	QCSB	Ex ante	100	-	Yes	II/2009	II/2010
28	Consulting assignment for formulation of urban Development and architectural projects Estimated cost: US\$31.250	IC	Ex post	100	-	No	I/2010	II/2010

Ref. No.	Contract description and estimated procurement cost	Procurement method	Review (ex ante/ ex post)	Source of financing		Pre-qualification (Yes/ No)	Estimated dates	
				IDB %	Local / Other %		Publication of specific announcement	Completion of contract
29	Consulting assignment for analysis, issuing of certifications, and land occupation Estimated cost: US\$214,000	QCSB	Ex post	100	-	Yes	II/2010	II/2011
31	Specialization courses in the social services area SEMASC. Estimated cost: US\$170,000	QCSB	Ex ante	100	-	Yes	II/2009	II/2010
32	Consulting assignments for a work assistance program, including training for civil servants Estimated cost: US\$560,000	QCSB	Ex post	100	-	Yes	II/2010	II/2011

#### GOODS AND SERVICES

- DP = Direct procurement  
S = Shopping. Value < US\$100,000  
PE = Pregão eletrônico (e-reverse auction)  
NCB = National competitive bidding: value > US\$100,000 ≤ US\$5 million  
ICB = International competitive bidding: value ≥ US\$5 million

#### WORKS

- S = Shopping. Value ≤ US\$500,000  
NCB = National competitive bidding: value ≥ US\$500,000 and < US\$25 million  
ICB = International competitive bidding: value ≥ US\$25 million

#### CONSULTING ASSIGNMENTS

- IC = Individual consultant  
LCS = Least cost selection  
QCSB = Quality- and cost-based selection  
QBS = Quality-based selection  
CQS = Selection based on the consultants' qualifications (individual consultant)