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BRAZIL

PROCIDADES – NOVO HAMBURGO NOVO HAMBURGO INTEGRATED MUNICIPAL DEVELOPMENT PROGRAM (BR-L1187)

LOAN PROPOSAL

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ELECTRONIC LINKS	
REQUIRED	LINK
1. Annual work plan (AWP) – 18 months	IDBDocs36688810
2. Monitoring and evaluation system	IDBDocs36690507
OPTIONAL	
1. Institutional analysis (ICAS)	IDBDocs36689453
2. Economic viability study	IDBDocs36689461
3. Concept studies for redevelopment of the Pampa creek	IDBDocs36689735
4. Concept studies for revitalization of the current downtown area, the Hamburgo Velho historic center, and the cultural corridor	IDBDocs36688937
5. Violence prevention studies	IDBDocs36689754
6. Financial assessment of the Município	IDBDocs36711098
7. Environmental and Social Management Report (ESMR)	IDBDocs36689512
8. Environmental Assessment Report (EAR)	IDBDocs36689066
9. <i>Parcão</i> management plan	IDBDocs36710812
10. Household resettlement plan (IRP)	IDBDocs36711117
11. Strategic Plan for Local Economic Development (PEDEL)	IDBDocs36711107
12. Sector strategic plan of the HamburgerBerg creative innovation hub (PES 1)	IDBDocs36689117
13. Sector strategic plan of the leather industry complex (PES 2)	IDBDocs36689131
14. Map of program interventions	IDBDocs36753446
15. Initial project procurement plan (itemized)	IDBDocs36689839
16. Environmental classification and social safeguard	IDBDocs36791798

ABBREVIATIONS

CHHV	Centro Histórico Hamburgo Velho [Hamburgo Velho historic center]
CUA	Centro Urbano Atual [current downtown area]
EAR	Environmental assessment report
ESMP	Environmental and social monitoring plan
GEAFIN	Sistema de Gestão Administrativo-Financeira [administrative-financial management system]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IRP	Involuntary resettlement plan
IRR	Internal rate of return
LCF	Local Currency Facility
LRF	Lei de Responsabilidade Fiscal [Fiscal Responsibility Law]
MNH	Município of Novo Hamburgo
NCI	Net current income
PAC	Programa de Aceleração do Crescimento [Growth Acceleration Program]
PCC	Program consultative committee
PDUA	Plano Diretor Urbano Ambiental [environmental urban master plan]
PEDEL	Plano Estratégico de Desenvolvimento Econômico Local [Strategic Plan for Local Economic Development]
PES	Plano Estratégico Sectorial [sector strategic plan]
PEU	Program execution unit
PMNH	Prefeitura Municipal de Novo Hamburgo [Municipal Government of Novo Hamburgo]
RS	State of Rio Grande do Sul
SEDETUR	Secretaria de Desenvolvimento Econômico e Turismo [Economic Development and Tourism Department]

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PROCIDADES – NOVO HAMBURGO

Financial Terms and Conditions					
Borrower: Município of Novo Hamburgo			Amortization period:		25 years
Guarantor: Federative Republic of Brazil			Grace period:		5 years
Executing agency: Município of Novo Hamburgo			Credit fee:		*
Source	Amount (US\$ million)	%	Interest rate:		LIBOR based
IDB (Ordinary Capital):	23.91	50	Inspection and supervision fee:		*
Local:	23.91	50	Disbursement period:		4 years
Total:	47.82	100	Conversion to reais:		Local Currency Facility
			Currency:		U.S. dollars from the Single Currency Facility of the Ordinary Capital **
Project at a Glance					
<p>Objective. The program's objective is to help improve socioeconomic, urban, and environmental conditions in the município of Novo Hamburgo (MNH), and thus enhance the quality of life of its population, by implementing strategic and integrated projects for: (i) urban and environmental revitalization of the city's consolidated urban areas; (ii) promotion of the município's sustainable economic development; and (iii) prevention and control of violence and crime in low-income neighborhoods, with the young and most vulnerable population.</p> <p>Special contractual clauses. The following will be conditions precedent to the first disbursement: (i) publication of the decree creating the program execution unit (PEU); (ii) official appointment of the basic PEU staff team (paragraph 3.3); and (iii) presentation of the report showing that the public management system currently being used by the MNH complies with the program's management physical/financial, and results monitoring requirements, in accordance with Bank standards (paragraph 3.9).</p>					
Project consistent with country strategy:		Yes [X]	No []		
Exceptions to Bank policies: None					
Project qualifies as:		SEQ []	PTI []	Sector [X]	Geographic []
					Headcount []

*** The individual operations approved under the PROCIDADES lending facility (document PR-3086-4) are financed with resources from the Single Currency Facility of the Bank's Ordinary Capital, with the option of converting disbursements and outstanding loan balances under the Local Currency Facility (LCF), in accordance with the terms previously approved by the Board of Executive Directors, pursuant to Resolution DE-112/06, rather than the terms of the Flexible Financing Facility (document FN-655-1) established subsequently. As with a global credit program, the Bank, in discussions with the country authorities of Brazil, has developed a design for individual operations under the facility that allows the terms and conditions for disbursements in local currency to be standardized for all participating municípios (see document PR-3086-4, paragraph 5.17).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem, and rationale

- 1.1 **Context.** The município of Novo Hamburgo (MNH) is situated 40 km from Porto Alegre, capital of the state of Rio Grande do Sul (RS), and is in the Porto Alegre Metropolitan Region. It has a total population of 238,940, and is predominantly urban (98.3%).¹ The MNH has a high human development index (HDI)—already reaching a value of 0.809 in 2000—and it is the state’s fifth largest economy.² Novo Hamburgo is the main economic hub of the Rio dos Sinos valley³ and is recognized in Brazil as the nation’s footwear capital. In terms of economic structure, commerce and services account for 72% of gross municipal product (produced by a wide variety of firms), followed by the industrial sector with 27.7% (predominantly leather tanning, chemical industries, and footwear components), with only a residual share for the agriculture sector (0.3%).⁴
- 1.2 **Urban conditions.** Novo Hamburgo serves as a regional hub among Brazilian urban centers, located in a region rich in natural resources and having major functional significance in the region’s network of cities.⁵ Its high degree of urbanization, which has occurred rapidly and with inadequate planning, has generated urban problems and social inequalities.⁶ The central area of Novo Hamburgo is remarkable for its historical, cultural, economic, and environmental importance, but also for its deteriorating urban conditions. Novo Hamburgo has undergone a number of targeted interventions over the years, with a view to improving its urban structure; but these have not been integrated and strategic interventions that would allow the MNH to be more competitive or to effectively and efficiently solve its environmental and urban problems. The following areas require greater attention in this regard:
- 1.3 **Hamburgo Velho historic center (CHHV).** The emergence of new hubs of activity in the city has attracted some of the best quality and economic urban functions away from the central zone. As a result, the CHHV is generally deteriorated, with some buildings showing signs of abandonment; and this is compounded by socioeconomic problems caused by the cessation of economic

¹ Brazilian Institute of Geography and Statistics (IBGE), 2010.

² IBGE, 2009.

³ The region contains 14 municípios; 80% of Brazilian footwear exports come from this region, and the MNH is its main production hub, according to the Rio dos Sinos Valley Regional Development Council (CONSINOS).

⁴ Strategic Plan for Local Economic Development (PEDEL), AFI, 2010.

⁵ Category B in the study *Regiões de Influência das Cidades* [Cities’ Regions of Influence] (REGIC/IBGE, 2007),

⁶ See electronic link [Strategic Local Economic Development Plan \(PEDEL\)](#).

activities that used to be installed there.⁷ Novo Hamburgo was founded in the area of the HamburgerBerg core, which still maintains a set of typically German architectural complexes, on which the social life of the colonists converged. German colonization of the Rio dos Sinos valley dates back to the mid-nineteenth century. In 1985, a process was initiated to recognize its historical value, by including the Casa Schmitt-Presser as part of the nation's historical heritage. In the 1990s, studies that served as a basis for the MNH master plan noted the need for preservation of the CHHV and cultural corridor,⁸ identifying those areas as having historical and cultural interest, subject to guidelines, special projects, and recognition of the historical value of the buildings. More recently, a process has been launched for recognition of the historical site of Hamburgo Velho by the National Historical and Artistic Heritage Institute. Private efforts to preserve the CHHV made investments over many years, but these were not adequately supported by the public authorities; and as they did not provide an effective return for the owners, new investments were deterred. Today the area is visibly degraded, with abandoned buildings such as the Lar da Menina shelter home for girls, reflecting the cessation of economic activities that used to be conducted there ([see optional link 4](#)).

- 1.4 **Current Novo Hamburgo downtown area (CUA).** Today there are clear urban and environmental problems in the CUA, particularly high levels of mainly noise and visual pollution, caused by the intensive inter-neighborhood traffic that traverses the downtown area. The commerce and service activities in the CUA attract urban and interurban population flows; but the area has serious shortcomings in its public infrastructure, including street lighting, road paving, and drainage system deficiencies, and in urban facilities such as plazas and recreation areas ([see optional link 4](#)).
- 1.5 **The Luís Henrique Roessler municipal park (*Parcão*).** The *Parcão* was expropriated 20 years ago and is considered the last continuous area of preserved vegetation in Novo Hamburgo.⁹ It is located in the central area of Novo Hamburgo, bordering on the CHHV/CUA and the cultural corridor. Despite its privileged location and potential for recreational, sports, educational, and environmental conservation activities, the park is underused, owing to its precarious connection with the rest of the city, since it is partly closed and access is restricted.¹⁰ Clearly, it

⁷ Novo Hamburgo is an industry hub—leather and footwear—and many of the service and commercial enterprises located in the CHHV are related to this industrial sector ([see optional link 4](#)).

⁸ The cultural corridor is formed by Júlio de Castilhos, Vitor Hugo Kunz, and General Osório streets. It is an important historic and architectural zone with buildings that are still preserved. Revitalization would allow for greater integration between the CHHV and the CUA

⁹ Exotic plant species are predominant in the *Parcão*, resulting from human management since the start of European immigration.

¹⁰ See electronic link [Parcão management plan](#).

needs to be transformed into a genuine urban park. A management plan has been produced that will form the basis for the interventions planned for the *Parcão*.¹¹

- 1.6 **Neighborhoods on the banks of the Pampa creek—eastern region of Novo Hamburgo.** Since the urban growth of Novo Hamburgo occurred rapidly, with contingents of migrants attracted by the footwear industry, a number of unregulated settlements sprung up mainly along the Pampa creek. This area is characterized by the lack of public utilities, basic infrastructure, and recreational spaces, and access is difficult. Along the Pampa creek and Avenida Alcântara¹² are the neighborhoods of Canudos (64,376 inhabitants) and Santo Afonso (23,269 inhabitants)—which have a low-income and more socially vulnerable population (paragraph 1.8)¹³—and the neighborhoods of São Jorge (13,717 inhabitants), Villa Diehl (10,743), and São José (5,674).¹⁴
- 1.7 **Economic factors and competitiveness.** As much as 80% of Brazilian footwear exports come from Rio Grande do Sul,¹⁵ with Novo Hamburgo at the center of this production. Novo Hamburgo firms compete on the international market in the mid-price female leather footwear sector, and also in the synthetic footwear segment. In addition to serving as a production hub, Novo Hamburgo is also a technological resource and development center¹⁶ and business tourism center—characteristics that should be further exploited.¹⁷ The stimulus provided by the leather and leather products sector¹⁸ fueled a 5.5% annual growth in the MNH trade balance during

¹¹ Management plan formulated on the basis of technical and scientific information to guide its management (Decree 84,017 of 21 September 1979).

¹² This avenue (5.7 km long) has implementation problems in terms of drainage and paving. Some segments need rehabilitation, together with environmental and population resettlement programs.

¹³ According to the Master Registry for Social Programs (CadÚnico), Novo Hamburgo has 13,558 families living in poverty or extreme poverty (10,452 are supported by the *Bolsa Família* program). Canudos and Santo Afonso are among the poorest of the city's neighborhoods.

¹⁴ According to the IBGE, DATASUS, and SMS/Novo Hamburgo, 2009.

¹⁵ Rio Grande do Sul footwear exports in 2008 amounted to US\$1,117,679,008, representing 59.4% of the country's total export earnings from sales of domestically made shoes. In 2007, the state had 2,755 footwear firms (35.2% of the national total), employing 111,966 people (37% of the sector in Brazil). *Jornal do Brasil*, 2009.

¹⁶ Despite the problems described, the PEDEL draws attention to a number of strengths of the leather and footwear complex that should be taken into account when characterizing Novo Hamburgo as a resource and technology center for the sector: (i) the high level of productive experience and know-how of the footwear cluster; (ii) local design and identity; (iii) educational environment geared toward the sector; (iv) the Brazilian Institute of Footwear Technology is the largest technology center for footwear studies; and (v) the Forum of Inspiration for Leather, Footwear, and Accessories, created by the Brazilian Association of Leather, Footwear, and Accessory Component Establishments (Assintecal).

¹⁷ Novo Hamburgo holds two leather and footwear sector trade fairs each year.

¹⁸ The leather and footwear sector consists of tanneries and chemical, metal, and electronic component industries. Other sectors that stand out are plastics and machine-tools. (Source: www.novohamburgo.rs.gov.br).

1998-2004.¹⁹ Since 2005, however, over 40 footwear factories have closed down, owing to the small added value of their products, the revaluation of the national currency, and competition from Chinese industries.²⁰ As a result, at least 20,000 workers lost their jobs. As the MNH economy remains highly dependent on the leather and footwear cluster,²¹ recovery of the industrial sector's competitiveness and support for emerging activities²² need to be given priority through interventions that are consistent with technological transformations under way locally and internationally. Some problems that need to be resolved to restore Novo Hamburgo's competitiveness include: (i) a deficient management culture among businesses; (ii) the lack of human capital with design, technology, and marketing skills; (iii) low levels of investment in technological innovation; and (iv) lack of business cooperation for forming partnerships aimed at developing new products and entering new markets.

- 1.8 **Public security.** Levels of violence and crime in Novo Hamburgo have risen substantially in recent years, and its homicide rate per 100,000 inhabitants is above the state average (22.1 in 2008).²³ Most of the crime and violence occur in 16 of its 27 neighborhoods; in 2008, 11 of those 16 had homicide rates ranging between 29.5 and 74.8 per 100,000 inhabitants. The two neighborhoods with the largest number of victims were Canudos (25.3%) and neighboring Santo Afonso (23%). These neighborhoods are the most heavily populated, accounting for 25% and 10%, respectively of the total population of Novo Hamburgo; they also have unreliable urban infrastructure and social services and the largest number of unregulated settlements. Factors explaining the high levels of violence among young people between the ages of 15 and 29 in Novo Hamburgo include: (i) high levels of social impoverishment that diminish future prospects and make it difficult to enter the formal labor market;²⁴ (ii) ineffective policing to control and prevent crime, owing to a lack of quality information and capacity to analyze the causes and patterns of crime, which limits operational deployment based on proximity and makes it harder to find solutions to the community's problems, particularly those of young people;

¹⁹ In this period, it grew from US\$91 million to US\$224 million. Source: Foreign Trade Department, Ministry of Industrial Development and Trade.

²⁰ Instituto Humanitas Unisinos – 13 February 2009.

²¹ About 80% of industrial jobs are directly or indirectly related to the leather and footwear complex, which accounts for 39% of industrial establishments.

²² The leather and footwear cluster has a spillover effect on other industries and on the supply of complementary services that help make the município more competitive.

²³ The city of Novo Hamburgo has the sixth highest homicide rate in RS, behind the cities of Alvorada, Viamão, São Leopoldo, Canoas, and the capital, Porto Alegre.

²⁴ This first factor is also related to: (a) high school dropout rates, which, combined with high unemployment rates, have made young people easy prey for involvement in criminal activities; and (b) the weakening of family ties and lack of opportunities for containment, training in citizen values, and rights protection mechanisms, make them highly susceptible to violent disputes and the consumption of alcohol and drugs (mainly crack), which increases their vulnerability.

and (iii) weak institutional coordination between municipal government departments, the municipal guard, the military brigade, and the civilian police, which operate at the state level, to implement comprehensive crime prevention and control services.

- 1.9 **Município and program strategy.** The program's strategy involves supporting the implementation of integrated actions and projects compatible with the MNH's environmental urban master plan (PDUA), with a view to the urban and environmental revitalization of key zones in its urban area. The proposed components and interventions address the following development challenges identified in the Proposal for Operation Development and in the PDUA: deterioration of urban infrastructure, local economic challenges, and public security problems in the city. The following activities are proposed to achieve these objectives: (i) support urban and environmental revitalization; (ii) promote economic development; and (iii) reduce crime and violence rates using strategic areas of the city as a territorial base. Thus, the logic of the project is adequately justified in the context of the municipal development strategies indicated in the PDUA, making the case for complementarity between the financed interventions and other development activities under way in the município, at the state and federal levels. The selection of the components occurred in the initial phase of preparation, based on actions at different levels of government that are being executed by the município and with which the Bank loan presents a high level of synergy, expanding the benefits accruing to the local population. To complement the financing of those priorities, the MNH requested resources from the federal government under the Growth Acceleration Program (PAC), for a number of works including: sewage system, construction of wastewater treatment plants and containment of the banks of the Pampa creek, and citizen security projects. The projects and works under this program will complement investments made under the PAC, making it possible to expand its impact.
- 1.10 **Lessons learned.** The strategy for preparing this operation took into account lessons learned from the preparation/execution of similar Bank projects in Brazil such as PROCIDADES Catanduva (2268/OC-BR) and others, such as the Benchmarkings studied in the Strategic Plan for Local Economic Development (PEDEL), and those described in the publications *Intervenções em Centros Urbanos—objetivos, estratégias e resultados* [Interventions in urban centers: objectives, strategies, and outcomes] and *Território de Paz* [Land of peace].²⁵ This program is a part of the PROCIDADES lending facility, under which 13 loans have already been approved for a total of US\$276.3 million. Lessons learned in these projects, which are applicable to Novo Hamburgo, are as follows: (i) interventions to revitalize specific urban spaces (e.g. the downtown areas) need to address multiple problems (infrastructure deficits and institutional, economic, social, and urban factors), should be comprehensive or multisectoral, and should be

²⁵ Organizers: Eliana Comin Vargas and Ana Luisa Howard de Castillo. Editora Manole, second edition, 2009. Special Journal of the Municipal Government of Canoas/RS, Brazil, 2011.

institutionally coordinated; (ii) experience shows that to revitalize central areas, public resources need to be invested in emblematic actions that serve as catalysts, particularly for private investments; (iii) interventions need to have community and private sector participation; and (iv) projects should include effective governance systems.

- 1.11 **Rationale.** The program fulfills the conditions and eligibility criteria for the investment sectors stipulated in the PROCIDADES lending facility (BR-L1043), which was approved by the Bank's Board of Executive Directors on 11 October 2006. This program is also consistent with the Bank's country strategy for the period (document GN-2662-1),²⁶ inasmuch as it contributes to: (i) improving the country's infrastructure conditions (expand and improve the quality and safety of state and federal road networks and support large and medium-sized Brazilian cities in improving urban transportation); (ii) support the growth and formalization of micro, small, and medium-sized enterprises; and (iii) reduce levels of violence and criminality among the youth population (15 to 24 years of age). Lastly, the program also contributes toward the GCI-9 objectives, by expanding access to urban infrastructure, helping to reduce poverty and inequality, promoting local economic development through the private sector, and supporting sustainable development.

B. Objectives, components, and costs

- 1.12 **Objectives.** The program's objective is to help improve socioeconomic, urban, and environmental conditions in the MNH, and thus enhance the quality of life of its population. The physical areas targeted for program intervention have a total population of approximately 80,000²⁷ and are shown in the map of interventions ([see optional link 14](#)). The program is structured in three main components.
- 1.13 **Component 1. Urban revitalization.** Urban revitalization actions are located in the CHHV and the cultural corridor (link between the CHHV and the CUA), the CUA, and the *Parcão*. They include: (i) upgrading of public infrastructure, street lighting, telephony, street paving, drainage system, urban facilities, plazas, and public walkways; (ii) restoration of the Lar da Menina in the CHHV; and (iii) public equipment as described in the *Parcão* management plan. Urban revitalization actions are also concentrated in areas of the disadvantaged neighborhoods in the eastern part of Novo Hamburgo. The revitalization project for these areas is related to construction of the 1.9-km southern segment of Avenida Alcântara, which will be developed on the bank of the Pampa creek. The following interventions are planned: (i) paving of public walkways, bike path, and installation of urban equipment and street furniture; (ii) street lighting; (iii) installation of public plazas; (iv) regularization of the Pampa creek's bed; and (v) redevelopment of the Vila

²⁶ Approved on 1 May 2012 for the 2012-2014 period.

²⁷ Population of the CUA, the CHHV, and the Canudos neighborhood; plus the youth population (15 to 29 years of age) of Santo Afonso.

Kipling and Vila Getúlio Vargas neighborhoods.²⁸ A total of approximately 41 families will be resettled to allow for works on Avenida Alcântara; this process will comply with the requirements of OP-710.²⁹

- 1.14 **Component 2. Local economic development.** This will be based on sound strategic planning provided by the PEDEL for two sector strategic plans (PES 1 and 2) and a strengthening plan for the Economic Development and Tourism Department (SEDETUR)—all developed during program preparation and validated by the Bank’s technical team and the MNH. The planning entailed financing for the following activities: (i) an urban development design for the Innovation and Technology Center; (ii) an integrated commerce, tourism, and services and industrial district strategic plan and implementation of a communication and marketing plan for the MNH; (iii) implementation of sector strategic plans already identified and validated by the private sector and the MNH—(a) implementation of the Hamburgtech creative innovation hub; and (b) implementation of the sector plan for the leather industry complex, targeting small and medium-sized enterprises; and (iv) strengthening of SEDETUR.³⁰
- 1.15 **Component 3. Prevention of violence.** This component will support the implementation of an integrated public security policy within the município, and violence prevention and control actions in the Santo Afonso and Canudos neighborhoods. The following activities will be financed: (i) social prevention of violence through support in the socioeducational, technical-vocational, recreational, and sports areas; together with values training for young people, training for mothers as agents of change in relation to violence, and strengthening of conflict resolution services; (ii) information and knowledge management with the creation of a crime and violence observatory; and (iii) institutional strengthening, involving implementation of the integrated municipal public security plan and creation of a municipal security forum for plan validation and monitoring.
- 1.16 **Program management.** In addition to these components, the following will be financed: (i) expenses incurred in the operation’s administration and hiring of consulting services to support the project execution unit (PEU); (ii) the preparation of final designs and plans for the program works and the city’s transportation and mobility plan; (iii) works supervision costs; (iv) commissioning of the Environmental and Social Management Plan (ESMP); (v) monitoring and

²⁸ Interventions are planned in Vila Kipling, Vila Getúlio Vargas, and Avenida Alcântara (neighborhoods of the Pampa creek), within the PAC II framework (federal government): sanitation, drainage, urban development, and housing units, etc. These improvements will meet the needs of 4,543 families living in these areas. The actions will be monitored by the PEU and by the Bank.

²⁹ Registry produced by Engeplus Engenharia e Consultoria Ltda. in May 2011. This was used to prepare an involuntary resettlement plan (IRP), with solutions applicable to each type of settlement and each of the three segments mentioned, based on the Bank’s population resettlement policy (OP-710).

³⁰ All of the proposals for this component are described in detail in optional electronic links 11, 12, and 13.

evaluation; (vi) updating of the property values map; and (vii) hiring of a firm of independent auditors to perform the program's accounting and financial audit.

1.17 **Costs.** Table 1.1 summarizes the program's costs:

Table 1.1: Summary of program costs (US\$000)

Category	BID	MNH	Total	%
I. Investment components	21,026	22,767	43,793	92
II. Program management	2,884	1,143	4,027	8
TOTAL	23,910	23,910	47,820*	100

(*) The financial costs, interest, credit fee, and inspection and supervision fee will be paid for outside the program.

C. Results framework with indicators

1.18 Program impacts will be measured through the following indicators: (i) property values in the area of influence of the Pampa creek works; (ii) sales by firms located in the CHHV; (iii) the homicide rate in the Canudos and Santo Afonso neighborhoods; (iv) user satisfaction with the central area of the city of Novo Hamburgo; (v) visitors to the Scheffel Foundation, the Casa Schmitt-Presser museum, the Lar da Menina home (CHHV), and the *Parcão*; and (vi) affiliated firms using PES 1 and PES 2. All indicators and their projected values are shown in detail in the Results Matrix (Annex II).

II. FINANCING STRUCTURE AND MAIN PROJECT RISKS

A. Financing instruments

2.1 **Program resources and disbursement schedule.** The total cost of the program will be US\$47.82 million, of which 50% will be financed by the Bank from the Ordinary Capital, and the other 50% will be contributed by the MNH. The implementation period is four years counted from the date on which the loan contract enters into force, with disbursements scheduled as follows:

Table 2.1: Disbursement schedule (US\$000)

Financing source/Year	1	2	3	4	TOTAL
IDB	4,434	9,724	7,134	2,618	23,910
MNH	6,992	10,026	5,663	1,229	23,910
Annual total	11,426	19,750	12,797	3,847	47,820
%	24	41	27	8	100

2.2 **Financial terms.** The MNH has asked to use the Bank's Local Currency Facility (LCF). The program will be undertaken using resources from the Single Currency Facility (U.S. dollars) of the Bank's Ordinary Capital, and will be subject to the

Operational Framework for Lending in Local Currency (document GN-2365-6). With a view to minimizing exchange rate risk, the MNH will be entitled, under the LCF, to convert disbursements and outstanding balances into reais. In accordance with the mechanism established in PROCIDADES, this will address the MNH's stated need to pursue a public debt strategy with growing local currency components, using resources from the Single Currency Facility of the Bank's Ordinary Capital.

- 2.3 **Recognition of counterpart expenses.** The MNH has asked the Bank to recognize as local counterpart a total of US\$10 million in expenses already incurred, related to the prefeasibility studies requested by the Bank for eligible works.³¹ The works were contracted in accordance with standards set out in national legislation, and will be recognized provided they comply with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9). Local counterpart costs incurred for up to 18 months prior to approval of this operation by the Board of Executive Directors will be recognized. Such activities will be consistent with the provisions of the policy governing retroactive financing (GN-2259-1 and OP-504).

B. Environmental and social risks

- 2.4 The following items were prepared for the purpose of complying with the Bank's Environment and Safeguards Compliance Policy (OP-703) and Involuntary Resettlement Policy (OP-710), in conjunction with the Municipal Government of Novo Hamburgo (PMNH): (i) an environmental assessment report (EAR)³² for the program, specifying mitigation measures, impact offset, and environmental control; and (ii) an involuntary resettlement plan (IRP) to guarantee suitable relocation of the 41 families and economic activities affected, with different solutions applied for each type of settlement pursuant to the Bank's policy. According to the EAR, the program will not generate significant negative environmental effects, but there will be a few small-scale short-term impacts caused by the works construction and changes in the physical and socioeconomic environment. The program is an intervention of wide-ranging urban and socioenvironmental change, with a local and regional scope and direct benefits for the population of the MNH. The environmental and social programs envisaged in the ESMP and IRP are focused on ensuring: (i) management and maintenance of the equipment set up in the *Parcão*, and optimization of the use of those facilities through environmental education actions for users; and (ii) participation by the affected community in the various phases of program implementation and the need to monitor the revitalized area, preventing new unregulated settlements and ensuring the preservation of public spaces. In view of these characteristics, the program has been classified as a

³¹ Growth Acceleration Program works (PAC I and PAC II) relating to urban development in the Vila Kipling and Vila Getúlio Vargas zones, for a total of US\$8.80 million; and the following projects in the preparation phase: (i) urban rehabilitation of the Pampa creek; (ii) renewal of the downtown area, CHHV, and cultural corridor, for a total amount of US\$1.21 million.

³² In Portuguese this is referred to as the RAA (*Relatório de Avaliação Ambiental*) ([see optional link 8](#)).

Category B operation, according to the Bank's Environment and Safeguards Compliance Policy (OP-703). The operation was reviewed by the ESR on 2 August 2010 (ESR 31-10).

C. Fiduciary risk

- 2.5 Fiduciary risk was analyzed on the basis of the following program documents: (i) the project profile; (ii) the results matrix; (iii) the work plan and procurement plan; and (iv) the município's institutional capacity assessment, undertaken using the institutional capacity assessment system (ICAS) methodology for executing agencies and entities of Bank-funded programs, and through meetings held with PMNH authorities and technical staff, to review the activities and projects included in the program and agree upon requirements for their implementation. On that occasion, a risk analysis was performed using the program risk management methodology. Institutional risk for the operation was rated as low. The results of the fiduciary risk assessment, the mitigation plan, and the fiduciary supervision agreements are provided in Annex III.
- 2.6 **Institutional capacity analysis.** The ICAS results (ratings) show that the PMNH's institutional capacity is satisfactory. Lack of experience in implementing projects of this type, which initially require an understanding and internalization of the Bank's policies, standards, and procedures, is a risk for the loan proceeds execution phase. The PEU will serve as the link between the PMNH and the Bank, in addition to other public and private organizations and entities that may participate in the program. The PEU will be given training in Bank procedures.
- 2.7 The financial analysis, based on information for the 2006-2010 period, and the analysis of expenditure projections show that the PMNH would be able to contribute counterpart funds for program implementation, in the amounts and timeframes indicated. An analysis with regard to Fiscal Responsibility Law (LRF) requirements for 2006-2010 (see Table 2.2) confirmed that the MNH complies with the thresholds established in all of the required indicators.

Table 2.2: MNH financial situation and external borrowing capacity (%)

Indicators	Threshold	2006	2007	2008	2009	2010
Personnel expenses/CNI*	60	48.01	45.02	42.48	41.26	45.94
Net consolidated debt/CNI	120	35.2	42.82	42.52	34.94	15.71
Total guarantees/CNI	22	0	0	0	0	0
Domestic and external credit operations/CNI	16	0	0.42	0.18	0.01	0.00
Revenue acceleration operations/ CNI	7	0	0	0	0	0

(*) Current net income.

D. Other special considerations

- 2.8 **Technical and economic viability.** An economic feasibility study was undertaken, using cost-benefit methods, for the works to revitalize the Novo Hamburgo downtown area and for urban development in the neighborhoods located in the eastern region and alongside the Pampa creek. An indicator of cost per user has also been developed for the *Parcão* improvement project. The results of the studies are as follows:
- 2.9 **Downtown revitalization.** Revitalization of the downtown area will provide new spaces for interaction between users and the formal city, in the form of pedestrian streets and plazas/green areas. A cultural corridor between the CUA and the CHHV is also planned. The project expects to take the entire population of Novo Hamburgo into account. Benefits were estimated using the contingent evaluation method, which estimated citizens' willingness to pay for the improvement of the urban core. The economic benefit was estimated based on the willingness to pay for the project, which was R\$10.16 (US\$6.45) per month per household. A comparison of costs and benefits shows that the project is economically viable, generating an internal rate of return (IRR) of 18.9%.
- 2.10 **Neighborhood urban development.** The project intends to develop a number of areas in the disadvantaged neighborhoods located on the banks of the Pampa creek, and to improve the region around the southern section of Avenida Alcântara. The work to be done includes landscaping/green areas, rest areas, walkways, bicycle lanes, installation of street furniture, and land titling. The benefit was measured using the property valuation method, comparing property prices in the Pampa creek watershed with those in a control area in the same region that have the same services as those to be installed under the urban development project. An econometric model estimated the benefit at R\$13,564 or US\$8,695 per household, which means an average expected increase of 75% over the current average value of the dwellings in question. The project scope is local and will cover roughly 2,100 families in the southern part of the watershed, and 5,600 families in the watershed area as a whole. Benefits from the Avenida Alcântara works were also estimated, in terms of lower vehicle operating costs and shorter travel times.
- 2.11 **Cost-benefit analysis of the main components.** The project's benefits were compared with its costs, including investment, operation, maintenance, and family relocation expenses. In addition, approximately 10% was earmarked to cover the cost of contingencies, engineering plans, and supervision activities. The costs were converted into efficiency prices; and the projects all proved to be economically viable, with net positive benefits as shown in Table 2.3.

Table 2.3: Cost-benefit analysis (in reais)

Project	Total cost (C) (R\$)	Total benefit (B) (R\$)	Indicators		
			NPV (R\$)	IRR (%)	B/C
Downtown area	17,223,097	25,623,486	8,400,389	18.9	1.49
Neighborhood areas: on the banks of the Pampa creek and along Avenida Alcântara	16,717,816	19,008,927	2,291,111	21.9	1.14

- 2.12 **Sensitivity analysis.** Sensitivity analyses applied to the results show that the downtown area project could support a 48.8% cost increase or a 33% reduction in benefits, while maintaining a benefit/cost ratio equal to 1. The urban development project for neighborhoods located along the Pampa creek would support cost increases of 13.8% in the southern part and 50% overall, or reductions in benefits of 12% and 33%, respectively.
- 2.13 **Parcão.** This is Novo Hamburgo's main green area. The project aims to implement its management plan and design walking trails and leisure areas for the population at large. In this case, the cost-efficiency method was used to determine whether the cost per user is consistent with that of similar projects in other urban areas. The result was a project cost of R\$66 per user per year, which is compatible with similar projects that report an annual per-user cost of R\$79.
- 2.14 **Distributional impact.** The distributional impact of the program can be estimated by defining a poverty line, considering the percentage of poor people in each project and weighting by the respective costs. The result shows that 29.6% of program benefits would be targeted on low-income families.

III. PROJECT IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation arrangements

- 3.1 The borrower will be the MNH. The Federative Republic of Brazil will be the guarantor of the borrower's financial obligations. The MNH will serve as executing agency, through the PEU. The administrative structure for program implementation consists of the program consultative committee (PCC) and the PEU.
- 3.2 The PCC will have the following responsibilities: (i) monitor program execution by the PEU; (ii) promote coordination among the PMNH agencies involved in the program's complementary actions; (iii) validate annual work plans and status reports; and (iv) support the resolution of conflicts arising during program execution. The PCC will be chaired by the Municipal Mayor, with the general coordinator of the PEU as secretary; and it will have the following full members: the Attorney General of the Município and the Municipal Secretaries of Finance, Administration, Public Works and Urban Services, Information Technology, Social Inclusion, and Urban Development. The PCC will hold quarterly regular meetings and special meetings as necessary.

- 3.3 The PEU will be attached to the Mayor's Office and will be responsible for implementation of the program's actions and management of the loan proceeds. It will also be accountable to the Bank for program management and will act as interlocutor with the PMNH and other participating entities. It will consist of the general coordinator of the program and the following managers: administrative-financial, urban and socioenvironmental revitalization, local economic development, and legal and procurement advisors. The director for violence prevention will report directly to the Mayor. The PEU will have a support team for administrative-financial and accounting matters and for technical areas involving engineering, urban development, and environmental management, among others. The works will be contracted out to private firms and inspected by the Município. The PEU will have support from a works supervision firm. **The following will be conditions precedent to the first disbursement under the program: (i) publication of the decree creating the PEU; and (ii) official appointment of the basic PEU staff team.**
- 3.4 **Arrangements for implementation of the components.** Program execution will be coordinated by the PEU. It is important to note that part of the urban revitalization works envisaged for Component 1 will be financed by the MNH, with resources from the PAC or from other sources of funds, as the program's local counterpart. The PEU will supply the Bank with documentation for counterpart recognition and will make sure the works satisfy the technical, economic, and socioenvironmental feasibility criteria accepted by the Bank for investments of this type.
- 3.5 **Procurement.** The procurement of works, goods, and related services and the hiring of consulting services will be governed by the Bank's bidding policies and procedures, as specified in documents GN-2349-9 and GN-2350-9. Works, goods, and services will be procured pursuant to the fiduciary agreements and requirements presented in Annex III.
- 3.6 **Advance of funds.** The MNH will request advances of funds through the PEU, according to the project's needs and pursuant to a financial plan accompanying each request. The executing agency will report to the Bank semiannually on the use of funds advanced, within 60 calendar days following the end of each six-month period.
- 3.7 As provided in the PROCIDADES lending facility document, supervision of this program will be flexible, since the risk analysis rated it as moderate risk. Supervision arrangements for operations with this type of risk provide for ex post reviews of procurement procedures and disbursements, which will be done directly by the program's external auditors. For the purposes of this operation, however, it was determined that ex ante review procedures will apply to the first two processes of each type/method, irrespective of amount, financed wholly or partly by the Bank, and all processes with an estimated cost above the thresholds for international competitive bidding (ICB). This will enable the Bank to provide guidance and ensure PMNH capacity in procedures of this type. Following this period, the Bank

will perform another risk analysis and, depending on the results, may adopt an ex post review modality for the rest of the execution period.

- 3.8 **Audit.** During program execution, the PEU will file annual financial statements for the program, audited by a firm of independent external auditors acceptable to the Bank, pursuant to previously agreed upon terms of reference. The program's audited annual financial statements will be submitted within 120 days after the end of each fiscal year. The program's closing audit reports will be filed within 120 days after the final disbursement. Every six months (30 June cut-off for each auditable period), the external auditors will conduct an interim review, issuing, within the following 60 days, a brief report on internal control and disbursements processed in the period, which will include verification of financial aspects and any procurement processes implemented.

B. Monitoring and evaluation arrangements

- 3.9 **Monitoring system.** To ensure effective monitoring of actions during the program implementation period, the PEU will make use of PMNH information systems and a management and financial-accounting control system for the project, which will be compatible with the Bank's systems and will also make it possible to monitor program indicators. The indicators for this system are based on the Results Matrix (Annex II) and include: (i) monitoring of outcome indicators; (ii) monitoring of physical progress and fulfillment of the program's and specific components' annual targets; (iii) evaluation of the outcomes of these actions and projects; and (iv) program efficiency and effectiveness. The system to be used by the PMNH for the program, as an integral part of its systems, especially in the financial-accounting area, will make it possible to issue all execution reports, monitor the results matrix indicators, prepare disbursement requests, issue supporting documentation for expenditures, and generate the reports and financial statements required by the program. **A condition precedent to the first program disbursement will be the presentation of the report showing that the public management system currently used by the MNH complies with the program's management, physical/financial, and results monitoring requirements, in accordance with Bank standards.**

- 3.10 **Midterm and final reviews.** The midterm evaluation will be performed 90 days after the date on which 50% of the loan proceeds have been disbursed, or when 30 months of implementation have elapsed, whichever occurs sooner. A final evaluation report will also be prepared and sent to the Bank, to serve as an input for the project completion report, which will be delivered no later than 90 days from the date of disbursement of 90% of the loan proceeds. These reports will include: (i) the results of the financial execution and a summary of all audits performed; (ii) a report on targets met for outputs, outcomes, and expected impacts; (iii) a report on compliance with environmental requirements, as defined in the EAR and the respective licenses; (iv) the operation and maintenance status for completed works; (v) a summary of socioenvironmental outcomes; and (vi) the fulfillment of

contractual commitments. Once accepted by the Bank, these two evaluation reports will be released to the public on the PMNH website.

- 3.11 **Evaluation.** The reflexive evaluation method will be used to assess the program's impact. An evaluation will be made at the end of the program to measure the impact of its actions. An ex post economic assessment will also be performed to compare the impacts effectively generated by the program with the projections contained in the ex ante economic analysis ([see required link 3](#)). These procedures were all agreed upon with the executing agency.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	The intervention contributes to (i) Lending for poverty reduction and equity enhancement (ii) climate change initiatives, renewable energy and environmental sustainability.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	The intervention contributes to (i) Municipal or other sub-national governments supported and (ii) Cities benefited with citizen security projects.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN2570-2 / GN2617-2		
Country Program Results Matrix	GN-2661	To be presented after respective CS approval.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.7		10
3. Evidence-based Assessment & Solution	7.2	25%	10
4. Ex ante Economic Analysis	10.0	25%	10
5. Monitoring and Evaluation	7.5	25%	10
6. Risks & Mitigation Monitoring Matrix	10.0	25%	10
Overall risks rate = magnitude of risks*likelihood		Medium	
Environmental & social risk classification		B	
III. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	yes	The following country systems are used: Financial Management (Budget, Treasury, Accounting and Reporting), Procurement (Shopping Method, Contracting individual consultant), National Public Bidding (Use of some National Sub-System)	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes 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.			

This operation has the objective of contributing to the improvement of socioeconomic, urban and environmental conditions of the Municipality of Nuevo Hamburgo and consequently to the quality of life for its people. To achieve these objectives, the program proposes to (1) support urban and environmental revitalization (2) promote economic development and (3) reduce crime rates and violence.

The program presents a clear diagnostic of the problem, objective population, and proposed solution. Monitoring of the program will be conducted by the program execution unit, using information systems from the prefecture. The impact evaluation will use a pre-post comparison to identify changes in key indicators and it is unlikely that the program will be able to establish causal attribution for results and impact indicators. The project will conduct an ex-post cost-benefit analysis. The project has a risk matrix that identifies potential risks and mitigation measures.

RESULTS MATRIX

General objective:	The program's objective is to help improve socioeconomic, urban, and environmental conditions in the município of Novo Hamburgo (MNH), and thus enhance the quality of life of its population, by implementing strategic and integrated projects for: (i) urban and environmental revitalization of the city's consolidated urban areas; (ii) promotion of the município's sustainable economic development; and (iii) prevention and control of violence and crime in low-income neighborhoods, with the young and most vulnerable population.			
Impact:	Better socioeconomic conditions in the município of Novo Hamburgo			
Impact indicators	Unit of measurement	Baseline (2010)	Target (2015)	Source/Mean of verification/Comments
Property values in the area of influence of the works on the Pampa creek	R\$/m ²	R\$220.59	R\$375.00	Preparation phase: economic assessment of the program – Source PEU (*) - Survey of “property values” in the specified area and control area.
Sales by firms located in the CHHV	R\$ million	R\$159.03	R\$166.96	Source: PEU, PMNH (*), measured by increases in ICMS (*) and ISSQN (*) revenue. Semiannual revenue report.
Outcome:	Urban and environmental revitalization of the city's urban areas			
Outcome indicators	Unit of measurement	Baseline (2010)	Target (2015)	Source/Mean of verification/Comments
User satisfaction with the central area of the city of Novo Hamburgo	%	68.50	73.60	Source: PEU, survey of WTP (*) for works implementation. Satisfaction understood as the number of survey respondents who consider the works important or very important. The WTP survey will be repeated after the works are complete.
Visitors to the Scheffel Foundation	Visitors/year	6,229	8,046	Source: PEU, by consolidating visitor records kept by the institutions. Scheffel Foundation record book Casa Schmitt-Presser record book <i>Lar da Menina</i> shelter home record book Semiannual report – beginning in the second year of the program
Visitors to the Casa Schmitt-Presser museum	Visitors/year	5,220	6,742	
Visitors to the Lar da Menina	Visitors/year	0	6,000	
Visitors to the <i>Parcão</i>	Visitors/year	32,500	49,484	Source: Semiannual report, PMNH/ <i>Parcão</i> , and visitor register kept by the institution

Outcome:	Sustainable economic development of the município promoted						
Impact indicators	Unit of measurement	Baseline (2010)		Target (2015)		Source/Mean of verification/Comments	
Firms affiliated with and using the PES 1	Firms	0		20		Semiannual report – PEU Source: PMNH/SEDETUR(*)	
Firms affiliated with and using the PES 2	Firms	0		40		Source: PMNH/SEDETUR Semiannual report –PEU	
Outcome:	Juvenile crime in low-income neighborhoods brought under control						
Outcome indicators	Unit of measurement	Baseline (2010)		Target (2015)		Source/Mean of verification/Comments	
Homicide rate in the Canudos and Santo Afonso neighborhoods.	Homicides/100,000 inhabitants	89		62		Source: PEU, Municipal Integrated Management Office – OGI-M. (*)	
Outputs	Unit of measurement	Year 1	Year 2	Year 3	Year 4	target	Source, frequency, and comments
Component I: Urban revitalization							
Rehabilitation of the Pampa creek subwatershed							
Road infrastructure and paving of Avenida Alcântara completed.	Km	0	0.6	0.6	0.7	1.9	Source: PEU Semiannual report Timetable monitoring
Families relocated	Families	0	0	20	21	41	Source: PEU Semiannual report Timetable monitoring
Bicycle lanes created	Km	0	0	0	1.9	1.9	Source: PEU Semiannual report Timetable monitoring
Banks of the Pampa Creek restored (replanting and containment of embankments)	Km	0	0	0	1.9	1.9	Source: PEU Semiannual report Timetable monitoring
Intersection of Avenida Alcântara with Avenida dos Municípios completed.	Intersection	0	0	0	1	1	Source: PEU Semiannual report Timetable monitoring
Revitalization of downtown area							
Electric cable infrastructure for street lights, both underground and overhead, installed.	Km	0	0	0.4	0.6	1	Source: PEU Semiannual report Timetable monitoring

Public walkways built.	Km	0	0	1.9	1.9	3.8	Source: PEU Semiannual report Timetable monitoring
Public plazas constructed.	Public plazas	0	0	1	1	2	Source: PEU Semiannual report Timetable monitoring
Roads built	Km	0	0	1.9	1.9	3.8	Source: PEU Semiannual report Timetable monitoring
Bicycle lane created.	Km	0	0	0	0.6	0.6	Source: PEU Semiannual report Timetable monitoring
Revitalization of the Hamburgo Velho historic center							
Public plazas revitalized.	Public plazas	0	0	1	1	2	Source: PEU Semiannual report Timetable monitoring
Lar da Menina historic building restored.	Building	0	0	0	1	1	Source: PEU Semiannual report Timetable monitoring
Public walkways built.	Km	0	0	0.75	0.75	1.5	Source: PEU Semiannual report Timetable monitoring
Infrastructure installed (water supply, electricity, drainage, street lighting, voice and data communication).	Km	0	0	50	50	100	Source: PEU Semiannual report Timetable monitoring

Link between the CHHV and the central area							
Bicycle lane created.	Km	0	0	0	2.6	2.6	Source: PEU Semiannual report Timetable monitoring
Public plazas revitalized.	Public plazas	0	0	0	1	1	Source: PEU Semiannual report Timetable monitoring
Public walkways installed.	Km	0	0	0	2.6	2.6	Source: PEU Semiannual report
Infrastructure installed (water supply, electricity, drainage, street lighting, voice and data communication).	Km	0	0	1.3	1.3	2.6	Source: PEU Semiannual report

Consolidation of the Henrique Luís Roessler municipal park–Parcão							
Environmental Education Center building constructed.	Building	0	0	0	1	1	Source: PEU Semiannual report
Park area fenced.	Hectares	0	0	54	0	54	Source: PEU Semiannual report
Bicycle lanes (in the area around the park and public walkways) constructed.	Km	0	0	0	1.7	1.7	Source: PEU Semiannual report
Public facilities constructed (bathrooms, changing rooms, etc.).	Equipment	0	0	50	50	100	Source: PEU Semiannual report
COMPONENT II: Local economic development							
Urban development design of the Innovation and Technology Center (CIT) prepared.	Design	0	0	1	0	1	Source: PEU Semiannual report – Economic Development and Tourism Department (SEDETUR)
Hamburgtech creative innovation hub installed.	Hamburgtech Hub	0	0	0	1	1	Source: PEU Semiannual report SEDETUR
Industrial district plan (basic, urban development, and final designs) prepared.	Plan	0	0	1	0	1	Source: PEU Semiannual report
COMPONENT III: Prevention of violence							
Institutional strengthening actions to prevent violence							
Young people receiving services as part of the Youth Project in the Canudos and Santo Afonso neighborhoods	Young people	800	1,600				Source: PEU/OGI-M database
Municipal public security plan prepared.	Plan	1	0	0	0	1	Source: PEU Security plan completion report
Municipal security forum set up for validation and monitoring of the plan.	Forum	1	0	0	0	0	Source: PEU Decree establishing the forum
Actions for social prevention of violence							
Project prepared to support socioeducational, technical-vocational, recreational, sports, and values training for youth.	Project	0	1	0	0	1	Source: PEU Semiannual report – OGI-M database

Project prepared to provide training for women/mothers as agents of change in relation to violence.	Project	0	1	0	0	1	Source: PEU Semiannual report – OGI-M database
Project prepared to strengthen conflict resolution services.	Project	0	0	0	0	1	Source: PEU Semiannual report – OGI-M database
Information and knowledge management for violence prevention							
Crime and Violence Observatory implemented.	Observatory	1	0	0	0	0	Source: PEU Semiannual report – OGI-M database
Observatory report prepared.	No. of reports	1	1	1	1	4	Source: PEU Annual reports with neighborhood data
Program management/studies and projects							
Territorial and institutional information management system implemented.	System	0	1	0	0	1	PEU Semiannual report
Property values map updated.	Map	0	1	0	0	1	PEU Semiannual report
Transportation and mobility plan prepared.	Plan	0	0	1	0	1	PEU Semiannual report
Final designs for urban revitalization implemented.	No. of designs	2	0	0	0	2	PEU Semiannual report

(*) Acronyms:

PEU: Program execution unit
ICMS: Goods and services tax
ISSQN: Municipal service tax
OGI-M: Municipal Integrated Management Office
PMNH: Municipal Government of Novo Hamburgo
SEDETUR: Economic Development and Tourism Department
WTP: Willingness to pay

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Brazil
Project number: BR-L1187
Name: PROCIDADES. Novo Hamburgo Integrated Municipal Development Program – Rio Grande do Sul
Prepared by: Marília Santos (Procurement specialist)
Leíse Estevanato (Financial consultant)

I. EXECUTIVE SUMMARY

The program will be implemented by the Município of Novo Hamburgo (MNH) through the program execution unit (PEU). Its objective is to help improve the quality of life of the inhabitants of the município by implementing strategic and integrated urban development projects to promote local economic development and citizen security. The program's specific objectives are to: (i) support urban and environmental revitalization in areas of strategic importance to the city; (ii) promote local sustainable economic development; and (iii) help reduce crime and violence rates in the Canudos and Santo Afonso neighborhoods.

With that objective, as the next step in the process and pursuant to the Bank's standards and procedures, an institutional capacity assessment of the administrative structure of the Municipal Government of Novo Hamburgo (PMNH) was performed on 16 and 17 June 2011, using the institutional capacity assessment system (ICAS) methodology for executing entities and agencies of Bank-funded programs and projects. The project team also assessed risks using the project risk management methodology, with participation by staff who will comprise the program management unit.

These evaluations showed that the institutional capacity of the PMNH is generally satisfactory for managing the program's actions; but it will need Bank support to strengthen the capacities needed to execute programs of this type, such as understanding and internalization of the Bank's applicable policies, standards, and procedures, and an increase in the number of staff working on the management of the proposed actions, among other capacities. The institutional risk of the operation was rated as low.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

The Bank's fiduciary strategy for Brazil seeks to make progressive and sustainable use of country fiduciary systems, since it considers Brazil to have a solid and transparent regulatory and institutional framework, with robust country fiduciary systems, allowing for good management of administrative, financial, control, and procurement processes, under principles of transparency, economy, and efficiency. Those systems need to be continually

upgraded and strengthened, to make them even better able to respond to new fiduciary needs. In this regard, the Bank's fiduciary strategy in Brazil is aimed at progressive and sustainable use of the country's fiduciary systems.

The Novo Hamburgo municipal administration was found to have a structured process for the overall planning of actions, replicating the model of other Brazilian public administration agencies and entities.

Municipal activities are recorded in the administrative-financial management system (GEAFIN)—a computerized system that manages all actions in the staffing, payroll, finance, budget, accounting, tenders and procurement, property, and inventory areas.

The Bank will reinforce the country strategy of using installed national capacity in governments by accepting the use of the GEAFIN system. To achieve this objective, the system needs to be adapted so that it can be used as a tool to generate financial and management reports from its accounting databases, thereby meeting the Bank's current standards.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

The risk analysis performed during the project design stage identified medium and low risks in relation to procurement and financial management:

- a. The municipal financial management (GEAFIN) system may not be immediately available. Mitigation action: immediate launch of a process to develop the financial control module, so that it is suitable for generating project disbursement requests and financial statements.
- b. Possibility of constraints in the budget allocation of program resources. Mitigation action: immediate submission for budgetary appropriation in the fiscal 2012 municipal budget.
- c. Lack of knowledge of the Bank's procurement policies and procedures. Mitigation action: provide training on policies and procedures during the startup mission, and encourage PEU staff to participate in sector seminars in Brasilia.
- d. Insufficient staff to monitor project planning and implementation. Mitigation action: increase the number of PEU staff responsible for the program's implementation and general coordination.

IV. CONSIDERATIONS FOR THE SPECIAL CONDITIONS OF THE CONTRACT

Conditions precedent to the first disbursement. The following will be conditions precedent to the first disbursement under the program: (i) publication of the decree creating the PEU; (ii) official appointment of the basic PEU staff team; and (iii) presentation of the report showing that the public management system currently being used by the MNH fulfills managerial, physical-financial, and program outcome monitoring requirements, in accordance with the Bank's requirements.

Exchange rate. In the reporting on loan proceeds and local counterpart funding, amounts paid in local currency will be converted into the currency of the operation at the exchange rate used to convert resources disbursed in United States dollars into the borrowing country's currency. When reimbursing expenses charged against the loan and recognizing local counterpart expenses, the applicable exchange rate will be the rate prevailing on the day before the disbursement request is presented to the Bank.

Financial statements on expenditures. An external independent auditing firm will be hired to perform the annual audit of the financial statements of program expenditures, pursuant to Bank procedures.

Other financial management requirements. Documentation in support of expenses incurred will be reviewed ex ante by staff, or by a consultant appointed by the Bank, during the first year of execution, or until such time as the routine is formally altered to ex post review, at which time they will be reviewed by external auditors, or whenever requested by the Bank.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

Procurement execution

The fiduciary agreements and requirements for procurement specify the provisions to be applied and observed during all program procurement and contracting processes:

- a. **Procurement of works, goods, and nonconsulting services.** The procurement of works, goods, and services, financed wholly or partly with the proceeds of the Bank loan, will be undertaken pursuant to the Policies for the Procurement of Goods and Contracting of Works Financed by the Inter-American Development Bank (document GN-2349-9), of March 2011.

When such procurement has an estimated cost of US\$25 million or more in the case of works and US\$5 million or more in the case of goods and services, international competitive bidding (ICB) will be used, following the procedures defined in Section II of document GN-2349-9. When the estimated cost is less than US\$25 million for works and US\$5 million for goods and services, national competitive bidding (NCB) may be used; and when the cost is below US\$500,000 for works and US\$100,000 for goods and services, the shopping method may be used, following the procedures defined in Section III of the same document.

The Bank may recognize the modalities provided for in Law 10,520/2002 (Online Auction Law) for procurement processes with an estimated cost per contract below the ICB thresholds, provided the requirements established in the Bank's procurement policies are respected, particularly with regard to: (i) the origin of the goods; (ii) the nationality of the suppliers; (iii) modification of purchase orders; (iv) prohibition of price bands; and (v) publication in a wide-circulation newspaper.

To take advantage of the provisions of Law 10,520/2002, the following limits will be observed: (i) online auction, using systems approved by the Bank for procurement of off-the-shelf goods and services with an estimated cost of no more than US\$5 million;

(ii) price list for the procurement of off-the-shelf goods with an estimated cost of US\$5 million or less, with prior Bank authorization of the list; and (iii) live auction for the procurement of off-the-shelf goods and services with an estimated cost of no more than US\$100,000. The Bank may eliminate the use of one or more of the modalities described in this paragraph at any time during the program execution period.

- b. **Selection and contracting of consulting services.** Processes for selecting and contracting program consulting services, financed wholly or partly with the proceeds of the Bank loan, will be undertaken pursuant to the Policies for the Selection and Contracting of Consulting Services Financed by the Inter-American Development Bank (document GN-2350-9), of March 2011.

Consulting firms will be selected and contracted following the methods specified in Sections II (Quality and cost-based selection – QCBS) and III (Other selection methods) of document GN-2350-9, using the guidelines and standards described in Section II (QCBS) as a basis for structuring the processes.

To undertake the respective contracting processes, the executing agency will produce short lists of six firms selected that fulfilled the technical requirements set out in the Expressions of Interest Notice.

Short lists for procurements estimated to cost less than US\$1 million equivalent per contract may consist entirely of national consulting firms. If the estimated cost of the contract is equal to or greater than that amount, the short list must contain six firms, with no more than two of the same nationality.

Irrespective of the selection method used, when the estimated cost of the contract is US\$200,000 more per contracting/contract, the Expressions of Interest Notice will be published in UNDB online (international publicity).

Processes to select and contract individual consultants financed wholly or partly from the loan proceeds will abide by the provisions of Section V of document GN-2350-9—Selection and contracting of individual consultants.

- c. **Advance procurement/retroactive financing.** The PMNH reported that the following expenses may be presented for recognition of expenses from the counterpart: works under the Growth Acceleration Programs (PAC I and PAC II) relating to urban development of the Vila Kipling and Vila Getúlio Vargas areas, for a total amount of up to US\$8.8 million; and expenses incurred in the following projects: (i) urban rehabilitation of the Pampa creek; and (ii) revitalization of the downtown area, the CHHV, and the cultural corridor, for a total of up to US\$1.2 million.
- d. **National preference.** No domestic preference margins will be applied.

A. Table of thresholds for Brazil (US\$)

Works			Goods			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity consulting services	Short list 100% national
≥ 25,000,000	< 25,000,000 and ≥ 500,000	< 500,000	≥ 5,000,000	< 500,000 and ≥ 100,000	< 100,000	≥ 200,000	< 1,000,000

1. Major procurement processes

Activity	Type of bidding	Estimated date	Estimated amount US\$000
Works			
1. Rehabilitation of the Pampa creek subwatershed (southern segment)	NCB	Jan/2013	10,454.55
2. Revitalization of the downtown area of the city, the Novo Hamburgo historic center (CHHV), and the area between the CHHV and the downtown area	NCB	Dec/2012	7,272.73
3. Revitalization of the “FENAC” events and business center	NCB	Jun/2012	1,425.00
Nonconsulting services			
1. Updating of the property values map	NCB	Jun/2012	249
2. Implementation of the communication and marketing plan of the Strategic Plan for Local Economic Development (PEDEL)	NCB	Jun/2012	600
Consulting services (firms)			
1. Technical-operational support for program management	QCBS	Jan /2012	727.27
2. Works supervision	QCBS	Jan /2012	727.27
3. Local economic development plan	QCBS	Jan /2012	2,700.00
4. Urban development designs for the Innovation and Technology Center	QCBS	Jan /2012	1,350.00

2. Procurement supervision

By mutual agreement with the team, it was decided that the first two processes of each type/method, financed wholly or partly by the Bank, will be reviewed *ex ante*, regardless of their value, as will all procurement processes whose estimated cost exceeds the ICB thresholds. Beginning with the second process, procurement may be reviewed *ex post*, based on a joint analysis with the executing agency and at the Bank’s discretion.

3. Special provisions

- a. Procurement plan: The PEU will present updates in the 18-month procurement plan for review and approval by the Bank, either annually or whenever necessary.

- b. Goods and nonconsulting services procured under Law 10,520/2002 (Online Auction Law) will be processed in systems recognized by the Bank for that purpose, in this case, COMPRASNET.

4. Records and files

The program's records and files will, at a minimum, comply with the following conditions:

- a. Records/processes will contain original documentation filed chronologically;
- b. Records/files will be kept in a suitable environment set up for that purpose, with restricted access and security guaranteed through preventive measures, such as prohibition of smoking at the site, access for authorized personnel only, etc.;
- c. A register will be kept of all filed documentation.

VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

1. Financial management agreements and requirements

Strategic and technical coordination of the program is the responsibility of the Municipal Mayor's Office, which will determine program guidelines and priorities.

The PEU, attached to the Mayor's office, will be responsible for operational liaison with the Bank and for the program's implementation and overall coordination.

The budget will be duly recorded and operated through the GEAFIN system, which must be fully functional for executing Bank projects no later than six months after the loan contract enters into force.

The budget for program activities will be approved by an appropriate legal instrument—publication of the Annual Budget Law, allocating the financial resources needed for program implementation. The Bank will reimburse project-eligible expenses according to established and executed categories.

2. Accounting and information system

The project's budgetary and financial execution will be handled directly by the system, which will be duly adapted for that purpose. In the case of the financial module, in addition to the Bank's standardized reports, the "financial plan" report will be prepared, to support requests for project funding advances.

3. Disbursements and cash flow

The program will operate with funds advanced by the Bank to satisfy the project's actual liquidity needs. For that purpose, a disbursement request will be presented, accompanied by a financial planning report reflecting the need for the funds during the period in questions, as previously agreed upon with the Bank.

The PEU will submit an initial project financial plan to the Bank, which will contain the schedule of disbursements for the entire project implementation period. This initial plan will

form the basis for the annual plan for the first fiscal year of execution, pursuant to which the first advance of loan proceeds will be planned.

For future advances, accounts will be rendered for at least 80% of the resources previously advanced, and a new financial plan must be presented for the period in question.

Documentation supporting expenses incurred will be reviewed ex ante, either by staff or by a consultant appointed by the Bank during the first year of execution, or until such time as the routine is formally altered to ex post review, after which it will be reviewed by external auditors or whenever required by the Bank. Ex post review will be duly documented in an appropriate report.

For the purposes of accounting for loan proceeds and the local contribution, the following foreign exchange rules will be applied to convert amounts paid in local currency into the currency of the operation: (i) the same exchange rate used to convert resources disbursed in United States dollars into the currency of the borrowing country. In that case, for the purpose of reimbursing expenses charged against the loan and recognition of expenses charged against the local counterpart, the exchange rate in force on the day before the date the disbursement request is presented to the Bank will be used. Expenses considered ineligible by the Bank will be reimbursed out of the local counterpart or other resources, at the borrower's discretion, depending on the nature of the ineligibility.

4. Internal control and internal audit

Internal control in the Município is maintained by its internal control unit, whose jurisdiction, organization, and structure are defined in Municipal Law 1.495/06.

The institutional assessment performed by the consultant hired by the Bank found that there was no risk analysis methodology.

Institutional strengthening actions are recommended to improve internal control processes, routines, and regulations.

5. External control and reports

External control is performed by the State and Union Audit Offices, whose activities are performed annually by sampling, in accordance with annual external audit plans defined by regulation.

The project will file annual financial statements with the Bank, duly audited by an independent external auditing firm, previously declared eligible and hired pursuant to the Bank's specific policy and procedures.

The contents of the reports and opinions to be issued will meet the Bank's standards for external audits, and will be delivered to the Bank within the timeframe specified in the loan contract.

6. Financial Supervision Plan

Supervision activities	Supervision plan			
	Nature and scope	Frequency	Entity responsible	
			Bank	Third party
Operational	Review of the physical status of actions/activities envisaged in the components, versus disbursements	Semiannual	Technical team	
	Review of status report	Semiannual	Fiduciary and technical teams	Executing agency
	Portfolio review	Annual	Technical team	
Financial	Ex ante/ex post review of disbursements and procurement	Annual	Fiduciary team	Fiduciary team and external auditors
	Financial and operational audit	Annual		External audit firm
	Review of disbursement requests and attached reports	Periodic	Fiduciary team	
	Inspection visit/analysis of internal controls, and control environment	Annual	Fiduciary team	
Compliance	Annual allocation of budgetary resources needed for project execution	Annual	Fiduciary team	Executing agency
	Presentation of audited financial statements and operational audit	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to the first disbursement	Once	Fiduciary and technical teams	Executing agency

7. Implementation arrangements

Given the implementation mechanism specified in the Proposal for Operational Development, a centralized administrative and financial execution framework is needed, operating through the PEU, for annual budget formulation and financial execution of both the local counterpart and the Bank loan.

8. Other financial management agreements and requirements

N/A