

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**PROCIDADES
PONTA GROSSA URBAN INFRASTRUCTURE IMPROVEMENT
PROGRAM**

(BR-L1099)

LOAN PROPOSAL

This document was prepared by the project team consisting of Mario Durán Ortiz (FMM/CBR), Project Team Leader; Teresa Faria and Rodrigo Beraldo (LEG/SGO); and Catalina Gómez (FMM/CBR). Also collaborating were: José A. Rodrigues, Marcílio Neves, Luis Fernando Galli, Raúl Ramos, and Raúl Cisternas (consultants); Aline Alvarenga (CSC/CBR); and Ida M. Fernández (ICF/FMM).

CONTENTS

PROJECT SUMMARY

I.	FRAME OF REFERENCE	1
A.	Background	1
B.	The situation of the município	2
C.	The country's strategy in the sector	4
D.	The Bank's strategy and lessons learned in the sector	4
E.	Sizing of the program.....	5
II.	THE PROGRAM	5
A.	Objective	5
B.	Description	5
1.	Engineering studies and administration expenses	5
2.	Education component.....	6
3.	Mobility and transport component.....	6
4.	Institution strengthening component	7
5.	Associated expenses.....	8
C.	Cost and financing	8
III.	PROGRAM EXECUTION	9
A.	Borrower, guarantor and executing agency	9
B.	Execution and administration	9
1.	Program executing unit	9
2.	Environmental considerations.....	10
C.	Procurement of goods and services	10
D.	Recognition of expenses	11
E.	Execution period and disbursement timetable.....	11
F.	Maintenance of the works	12
G.	Revolving fund and external audit.....	12
H.	Monitoring.....	12
I.	Monitoring and evaluation system.....	13
J.	Midterm and final evaluations	13
IV.	VIABILITY AND RISKS	13
A.	Technical viability.....	13
B.	Socioeconomic viability.....	14
C.	Institutional viability	16
D.	Financial viability.....	17
1.	Historical financial analysis	17

2.	Financial projection.....	18
E.	Environmental impact.....	20
F.	Benefits and beneficiaries	20
G.	PTI/SEQ classification.....	21
H.	Risks	21

ANNEXES

Annex I Logical framework

APPENDICES

Proposed resolution

Electronic Links and References	
Basic socioeconomic data (Brazil)	http://www.iadb.org/countries/home.cfm?language=spanish&id_country=br
Status of loans in execution	http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1212768
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=BR&L=EN
Annex II: Procurement plan	http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1739190
Information available in the technical files	http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1711253

ABBREVIATIONS

AWP	Annual work plan
BNDES	Banco Nacional de Desenvolvimento Econômico e Social [National Development Bank]
CESI	Committee on Environment and Social Impact
CMEI	Centro Municipal de Educação Infantil [Municipal Preschool Facility]
COFIEIX	Comissão de Financiamentos Externos [Federal Government External Financing Commission]
GDP	Gross domestic product
HDI	Human Development Index
HDI-M	Municipal Human Development Index
IAP	Instituto Ambiental do Paraná [Paraná Environment Institute]
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICAS	Institutional Capacity Appraisal System
IOSP	Índice de Oferta de Serviços Públicos [Public services supply index]
IPU	Imposto Predial e Territorial Urbano [Urban building and land tax]
LCF	Local Currency Facility
LRF	Lei de Responsabilidade Fiscal [Fiscal Accountability Act]
MPG	Município of Ponta Grossa
NCI	Net current income
OC	Ordinary capital
PARANACIDADE	Paraná State foundation to administer the State Urban Development Fund
PBC	Permanent bidding committee
PCR	Project Completion Report
PDPG	Plan Diretor de Ponta Grossa [Ponta Grossa Master Plan]
PEU	Program executing unit
PMAT	Programa Modernização da Administração Tributária [Tax Administration Modernization Program]
PMPG	Prefeitura Municipal de Ponta Grossa [Municipality of Ponta Grossa]
PNAFM	Programa Nacional de Apoio à Gestão Administrativa e Fiscal dos Municípios Brasileiros [National Fiscal Support Program for Brazilian Municípios]
PRAT	Project Risk Assessment Tool
RAA	Relatório de Avaliação Ambiental [Environmental assessment report]

PROJECT SUMMARY

BRAZIL

PROCIDADES

MUNICÍPIO OF PONTA GROSSA URBAN INFRASTRUCTURE IMPROVEMENT PROGRAM (BR-L1099)

Financial Terms and Conditions ¹				
Borrower: Municipality of Ponta Grossa (PMPG)			Amortization period:	25 years
Guarantor: The Federative Republic of Brazil			Grace period:	5 years
Executing agency: Municipality of Ponta Grossa			Disbursement period:	3 years
Source	Amount	%	Interest rate:	Libor
IDB (Ordinary Capital)	US\$7,500,000	50	Inspection and supervision fee:	*
Local	US\$7,500,000	50	Credit fee:	*
Total	US\$15,000,000	100	Currency:	US dollars from the Single Currency Facility
			Conversion to <i>reais</i>	LCF
Project at a glance				
Project objective: The program has as its general objective to ameliorate the quality of life for the inhabitants of the município of Ponta Grossa, through investment in basic and social infrastructure to enhance the quality of services for the general public and increase service coverage, and through actions to improve municipal governance. The specific objectives include: (i) consolidating basic education infrastructure and expanding preschool facilities; (ii) improving conditions for passenger transport mobility; and (iii) making administrative governance in the município more efficient.				
Special contractual clauses: <u>Condition precedent to the first disbursement</u> : (i) official confirmation, by decree, of the Program Executing Unit (PEU) and the Deliberative Commission (paragraph 3.4); and (ii) implementation of the management and financial-accounting oversight system (paragraph 3.19). <u>Condition precedent to procurement of the second group of road surfacing works</u> : (i) presentation to the Bank of the annual training plan (paragraph 2.14) and (ii) commissioning of the information technology master plan (paragraph 2.11). <u>Condition precedent to procurement of the third group of road surfacing works</u> : (i) presentation to the Bank of the property cadastre modernization plan; and (ii) presentation to the Bank of the plan to update the urban building and land tax (IPTU) appraised values (paragraph 2.13).				
Exceptions to Bank policies: (i) the executing agency has requested recognition of program expenses incurred since 4 September 2006, a date prior to the project's entry into the Bank's pipeline (paragraph 3.13); and (ii) presentation of audited financial reports to the Bank within 180 days after the end of the corresponding fiscal period or after the last disbursement (paragraph 3.17).				
Project consistent with country strategy: Yes [X] No [] Project qualifies as: SEQ [X] PTI [X] Sector [] Geographic [] Headcount [] Procurement: Goods and related services and consulting services will be procured in accordance with Bank procurement procedures and policies Verified by CESI on: 14 September 2007				

* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Background

- 1.1 The município of Ponta Grossa is located in the southern region of Brazil, in the central part of the state of Paraná, 120 km from the state capital Curitiba (IDBDocs-Link). In 2007, the Brazilian Institute of Geography and Statistics (IBGE) estimated the município's population at 309,700, of whom 97.4% were living in the urban center. Ponta Grossa's living standard and urban service indicators are high. For example, life expectancy is 70.9 years, and the literacy rate is 94.3%. In the urban area, 99.1% of homes have electric power, 96.9% have drinking water, and 97.2% have garbage collection service. Between 1991 and 2000, the Municipal Human Development Index (HDI-M)¹ rose from 0.723 to 0.804, which puts Ponta Grossa in the high human development segment. Compared with Brazil's other 5,507 municípios, Ponta Grossa ranks 478th (i.e. in the top 10% nationwide); and it is 18th among Paraná's 399 municípios. The factors considered in the HDI-M include the education indicator which reached a level of 0.911, placing Ponta Grossa in the top 5% nationally — at the same level as Chile (0.91), which is among the leading Latin American nations in the United Nations Development Programme² world ranking. Despite these positive indicators, the município has one of the most unequal income distributions in Paraná, as its per capita income is below the minimum wage³ and 18% of families live on an income of one half the minimum wage or less.⁴
- 1.2 Ponta Grossa is the main road and rail hub in Brazil's southern region, located at the convergence of three main federal highways and four railway lines which connect to all parts of the state. The rail system runs around the city, making it possible to transport the region's agricultural output to the port of Paranaguá for export. In addition, the railroad goods yard at the Uvaranas station is used to consolidate freight arriving from various points of the region. This advantageous geographic location, and the infrastructure available in the município have benefited trade and industry, and since the 1990s large national firms in the logistics sector have started to set up facilities there. The município accommodates Brazil's largest grain storage complex, which operates as a dry port with static capacity of 420,000 tons. This center receives nearly all of Paraná's production and much of the output of Mato Grosso, Mato Grosso do Sul, and also Paraguay. Grains are transported from here to the port of Paranaguá only when the respective shipment has been programmed. Thanks to these competitive advantages, Ponta Grossa is home to the largest industrial district in Paraná, overshadowed in the state only by the industrial parks of Curitiba and Pinhais (in the metropolitan region of Curitiba). In addition, the

¹ UNDP, 2000.

² UNDP, *Human Development Report*, 2007. The education component in Brazil's national Human Development Index (HDI) is 0.74.

³ IPEA, 2000.

⁴ UNDP, 2000.

município has chemical, metallurgy and food processing industries which contribute to its broad-based development.

B. The situation of the município

- 1.3 Processing industries account for a major share of Ponta Grossa's economy but, because they are highly mechanized, generate only 30% of all employment in the município. Although per capita GDP has been rising steadily since the start of the município's agro-industrialization process in the 1970s, family income has gradually declined, such that more people live below the poverty line in Ponta Grossa than anywhere else in Paraná; the município also has one of the state's highest unemployment rates (15%). Nonetheless, a legacy of solid infrastructure and a good educational network have enabled the município to maintain a high literacy rate, by both Brazilian standards and its own socioeconomic conditions. The inadequate distribution of the município's wealth is also reflected in urban settlement patterns. The high cost of land in the downtown area has led to social segregation, resulting in concentrations of substandard housing in areas away from the center and in outlying areas without proper infrastructure that are breeding grounds for violence. The same public housing policies have also contributed to the fragmentation of the urban fabric, with the growth of housing complexes far from the city center. This has left many residents in those areas with inadequate public services, particularly deficient public transport and limited accessibility.
- 1.4 **Education sector:** According to the education sector policy and the country's regulatory framework, the municipality (*Prefeitura Municipal*) of Ponta Grossa (PMPG) is responsible for executing programs and delivering preschool education (0-5 years) and basic education (6-14 years) services. As noted above, Ponta Grossa has a sound education system, and it is worth highlighting the município's accomplishments in basic education, which has 100% coverage; in addition, according to the Department of Education's good teaching classification, Ponta Grossa ranks 11th in the state and 57th among the 249 Brazilian municípios with over 100,000 inhabitants.⁵ The municipal school network consists of 84 schools attended by 22,530 pupils. Unfortunately, the premises of many schools are dilapidated and poorly maintained, a situation not conducive to teaching. Accordingly, the município's challenge for the future is to expand and upgrade the physical condition of the basic education school network, thus helping to maintain its high educational standards, or even raise them.
- 1.5 In the case of preschool education, the municipal network has 34 preschool centers (CMEIs), attended by 3,285 pupils, or 20% of current demand. An additional 10% of pupils are served through partnerships with community and philanthropic organizations and the Municipal Department of Education.⁶ Nonetheless, a major

⁵ Department of Education, 2005.

⁶ This type of coverage is not uncommon in Brazil, since preschool education was only recently placed under municipal jurisdiction, and the municípios still find it difficult to hire suitable staff to satisfy demand, owing to the expenditure limits established by the Fiscal Accountability Act (LRF). Moreover, federal government transfers do not cover works investment expenses.

challenge for the município is to gradually expand the network of preschool facilities, targeting in particular the município's least served areas.

- 1.6 **Mobility and transport:** Ponta Grossa has 1,438 km of urban roads, of which just 39% have some kind of paved surface, be it asphalt, polyhedral stone, or irregular stone. Most unpaved roads are outside the central area, in outlying low-income neighborhoods. The 2006 Ponta Grossa Master Plan (PDPG)⁷ prioritizes promoting a road system and public transport network that guarantees satisfactory access to all parts of the city. The law to supplement the PDPG, dealing with the basic road system, sets a target of paving all roads serving as regular bus routes.
- 1.7 The city's topography is highly undulating and this characteristic has molded road layout, resulting in highway arteries being situated along the divisions of hydrographic basins, in both north-south and east-west directions. This topographic feature has led to the development of a road network that affords poor connectivity between distant regions, and a lack of road links between neighboring areas. This situation affects the quality of the transport system, firstly by overburdening the few connections available between the different parts of the city, and secondly by unnecessarily lengthening bus routes. Moreover, the concentration of activities in the downtown area means that 52% of journeys originate in housing complexes situated in large urbanized settlements on the outskirts.
- 1.8 The public transport system consists of four integration terminals, together with their respective feeder routes, and radial lines that converge on the central terminal. There are also direct services between external terminals. The system operates with almost 200 units of various types, with a single fare. The main problems facing the public transport system include unpaved roads along entire bus routes, which raises operating and maintenance costs, leading at times to a temporary suspension of service.
- 1.9 For the purposes of this program, unpaved is defined according to the hierarchy established in the Master Plan, with priority being given to unpaved roads serving as public bus routes in outlying low-income neighborhoods. These interventions will facilitate rapid access to the traditional city center, and provide connections between outlying neighborhoods and job-creating areas.
- 1.10 **Institutional aspects:** The PMPG has sound institutional capacity, and for several years has been implementing a process of ongoing improvement (IDBDocs-Link). The institution has an average of 17 agents for every 1,000 inhabitants, and although this may seem high, it is below the average for Brazil as a whole (25) and for Paraná (23.2).⁸ On the fiscal front, the PMPG raised revenue of R\$734.40 per capita in 2006, a 92% increase over the last four years. This relative administrative and fiscal efficiency is largely due to the support provided by the Tax

⁷ Updated through Supplemental Law 8663 of October 2006, for the purpose of compliance with the Cities Charter [*Lei de Estatuto das Cidades*].

⁸ Moreover, 75% of agents are in education (47%) and health (38%), leaving just under four for every 1,000 inhabitants in all other PMPG action areas.

Administration Modernization Program (PMAT), funded by the National Economic and Social Development Bank (BNDES), which began execution in 2002. The main results of this program were: (i) the development of computer systems for tax management and taxpayer services; (ii) consolidation of the document protocol and management system; and (iii) modernization of accounting systems. To maintain support for the PMPG, the Bank and the Department of Finance are arranging funding from the National Fiscal Support Program for Brazilian Municípios (PNAFM) in the amount of US\$4.5 million, which is expected to be approved in late 2007 and will support the following areas: (i) technological and information technology development; (ii) administrative organization and governance; (iii) human resources and training; (iv) tax and financial management; and (v) planning and internal oversight.

- 1.11 While this program was being prepared, a number of other areas were identified for strengthening, which would make it possible to improve municipal governance and complement PNAFM actions when the program gets under way. These target specific areas such as: (i) technological and information technology (IT) modernization; (ii) improvement of administrative governance; (iii) improvement of tax administration; and (iv) strengthening of technical capacities.

C. The country's strategy in the sector

- 1.12 The Ponta Grossa Master Plan, approved in October 2006, has the key goal of enhancing the quality of life of the município's inhabitants. To this end, it identifies five strategic areas of action: (i) environmental conservation; (ii) socioeconomic development; (iii) spatial and housing development; (iv) improvement of urban infrastructure and optimization of social facilities and services; and (v) institutional strengthening. The current PMPG administration has promoted an urban policy guided by the Master Plan, and has identified a series of strategic projects for municipal development, especially ones to strengthen basic and social services infrastructure. Those priorities include upgrading the facilities and raising the quality of preschool and basic education, areas to be supported by this operation.
- 1.13 The program will also support investments in road infrastructure, making it possible to improve access for the city's more remote neighborhoods, while allowing those neighborhoods to integrate with Ponta Grossa's downtown areas. The PMPG has given priority to redesigning the road layout, and paving roads that are bus routes. The aim is to substantially improve public transport service, and thus enhance the mobility of low-income population groups and facilitate quicker and more reliable access to the city, the work place, and public services such as health and education.

D. The Bank's strategy and lessons learned in the sector

- 1.14 The proposed program satisfies the conditions and eligibility criteria and targets the investment sectors stipulated in the PROCIDADES lending facility.⁹ The program

⁹ PROCIDADES (BR-L1043) is a credit mechanism for funding municipal administration and works in Brazil; it was approved by the Board of the Executive Directors of the Bank on 10 November 2006.

is founded on the Bank's experience in multisector urban development interventions such as those of Urban Paraná I (0917/OC-BR) and II (1405/OC-BR), and the Curitiba Urban Transport Program I (873/OC-BR). Lessons learned from this experience include the importance of community participation to ensure the sustainability of the improvements; creativity in defining sustainable low-cost technical solutions making it possible to guarantee the economic return on the road projects; and having construction designs and plans available from the outset, so as to avoid delays and cost overruns in implementation.

- 1.15 The program being proposed is consistent with the Bank's strategy with Brazil, as set out in document GN-2327-2, which focuses on four areas: (i) productivity and infrastructure; (ii) poverty and equity; (iii) conditions of life and efficiency in the cities; and (iv) modernization of the state. The proposed program addresses three of these areas, insofar as it will contribute to: (i) the município's competitiveness, by improving transport infrastructure and facilitating mobility by the public at lower cost; (ii) improvements in social conditions through the education component; and (iii) modernization of government, with the institutional strengthening component.

E. Sizing of the program

- 1.16 The sizing of the program and its components reflect demand for existing services within the município, taking account of the priorities identified by the municipal authorities, based on the 2006 PDGP and the results of evaluations and preparatory studies requested by the Bank.

II. THE PROGRAM

A. Objective

- 2.1 The program has as its general objective to ameliorate the quality of life for the inhabitants of the município of Ponta Grossa, through investment in basic and social infrastructure to enhance the quality of services for the general public and increase service coverage, and through actions to improve municipal governance. The specific objectives include: (i) consolidating basic education infrastructure and expanding preschool facilities; (ii) improving conditions for passenger transport mobility; and (iii) making administrative governance in the município more efficient.

B. Description

- 2.2 The program, which covers engineering, administration, and associated expenses, will be divided into three main components, as described below:

1. Engineering studies and administration expenses (US\$400,000)

- 2.3 This component covers the costs of: (i) technical studies, topography, soil studies and the preparation of projects needed during program preparation and execution; (ii) PEU logistics, supervision, monitoring, and measurement of indicators for the

midterm evaluation and the logical framework. The external audit will be performed by the state Auditing Office, an institution duly accredited by the Bank.

2. Education component (US\$6.3 million)

- 2.4 This is a multiple works component that will fund investments in infrastructure and educational equipment needed by the município of Ponta Grossa, to consolidate the basic education school network and expand preschool facilities. These investments complement existing education sector plans (including prioritizing the rehabilitation of school premises), and take into account the municipal Department of Education's institutional and financial capacity to absorb the recurrent costs associated with the equipment to be financed, such as staffing, materials, and maintenance.
- 2.5 Specifically, the component will finance the construction of new facilities and its activities will focus on the renovation of existing basic education and preschool infrastructure. Works will include improvements to the internal ventilation of facilities, painting of classrooms, and the construction and/or expansion of laundry, kitchen, and bathroom service areas. Also included will be the financing for the expansion of sports and recreation areas, parks and tree planting, and digital inclusion centers. To verify the eligibility of each work, a detailed evaluation will be made of the materials adopted in each intervention and their unit prices, to guarantee quality and durability at minimal cost.
- 2.6 To achieve these aims, a representative sample was selected, consisting of 10 primary schools (one new and nine remodeled buildings), along with four municipal preschool centers (CMEIs) (2 new and 2 remodeled buildings), for a total of US\$3.2 million. This sample will benefit a total of 2,766 pupils in basic education and 591 in preschool. The analyses of the representative sample show that the component works should benefit a total of 10,420 pupils in basic education, corresponding to 46% of primary school students, and a total of 670 preschool pupils, which will mean a 5% expansion of the preschool network.

3. Mobility and transport component (US\$7.6 million)

- 2.7 This is a multiple works component that provides for the paving of 35 km of urban residential roads concentrated in low-income outlying neighborhoods. Priority will be given to streets serving as regular public transport bus routes, mostly consisting of branches leading to the terminal of the bus line in question. In other cases, resurfacing, combined with the expansion or construction of small-scale drainage works, will make it possible to create or improve connections between adjacent neighborhoods which are now practically cut-off. In addition to these criteria, the eligibility of the interventions was determined using cost-efficiency indicators, reflecting the quality of the type of soil in each residential area (paragraph 4.7).
- 2.8 For technical solutions relating to the type of road surface to be provided, both asphalt and polyhedral stone paving will be considered. The alternatives in terms of surfacing materials will take account of traffic demand, the function of the road, and its location. Prices are unstable in the local market because the local quarry is operated as a monopoly. Hence, the bidding process will permit both alternatives in

most cases. The PMPG has already submitted the final designs for paving 10 km of roads in the representative sample.

4. Institution strengthening component (US\$500,000)

- 2.9 Despite the PMPG's significant progress over the last few years, the institutional diagnostic identified a number of strategic areas that, with improvement, would make its administration more efficient. Accordingly, the following four subcomponents will be funded: (i) technology and information technology; (ii) administrative governance; (iii) tax administration; and (iv) human resource management.
- 2.10 The actions proposed are geared to support efforts currently being undertaken by the PMPG, and they complement those envisaged under the PNAFM to streamline the município's administrative structure; improve tax and fiscal procedures and systems, and human resource management; modernize the technology and IT areas; and rationalize the administration of procurement, accounting, payments, and internal oversight.
- 2.11 Technology and IT modernization. The following activities will be undertaken: (i) design and implementation of an IT Master Plan and a periodic update strategy; and (ii) procurement of computer equipment (servers, computers, software, and licenses), in accordance with the IT Master Plan. For these activities, the program will provide funding to hire consultants and procure computer equipment. **The commissioning of the information technology master plan will be a condition precedent to procurement of Group 2 road surfacing works.**
- 2.12 Enhancing administrative governance. The following activities will be undertaken: (i) redesign of procurement and purchasing procedures; (ii) preparation of an annual procurement plan; (iii) redesign of the organizational structure; (iv) review and rationalization of routines and procedures (manuals) of the municipal departments, particularly for internal oversight; and (v) preparation of standards for procurement oversight, record keeping, maintenance, and goods transfer. Here, the program will provide funding for consultants to develop the plans, procedures, and standards.
- 2.13 Improving tax administration. The following activities will be carried out: (i) preparation of an action plan to modernize the property cadastre; and (ii) preparation of a plan for periodic updates of official property assessments for the building and land tax. The program will finance the hiring of consultants for these activities. **The commissioning of the property cadastre modernization plan and official property assessments will be conditions precedent to procurement for the Group 3 road surfacing works.**
- 2.14 Strengthening of technical capacity. The following activities will be undertaken: (i) development of an annual training plan, based on a study of real demand in the different areas of the PMPG; and (ii) monitoring and evaluation of the training plan. To support these actions, the program will finance the engagement of consultants and training services. **Presentation of the annual training plan to the Bank will be a condition precedent to procurement for Group 2 road surfacing works.**

5. Associated expenses (US\$6,000)

- 2.15 The program entails a provision for possible expenses arising from expropriations for rights of way for the urban road surfacing works.

C. Cost and financing

- 2.16 The total cost of the proposed program is US\$15 million. A break down distributed by investment category and source of funding is shown in the table below:

Table 2.1: Program costs (US\$)

	Categories	IDB	Local	Total
1	Administration and engineering	0	462,000	462,000
1.1	Topography and soil services		157,000	157,000
1.2	Computerized management system		120,000	120,000
1.3	Studies and projects		185,000	185,000
2	Direct costs	7,500,000	6,507,500	14,007,500
2.1	Education		6,395,000	6,395,000
2.1.1	Schools		5,330,000	5,330,000
2.1.1.1	Construction of new schools		615,000	615,000
2.1.1.2	Remodeling of existing schools		4,715,000	4,715,000
2.1.2	Preschool centers (CMEIs)		1,065,000	1,065,000
2.1.2.1	Construction of new CMEIs		775,000	775,000
2.1.2.2	Remodeling of existing CMEIs		290,000	290,000
2.2	Mobility and transport	7,500,000	112,500	7,612,500
2.2.1	Surfacing of urban roads	7,500,000	112,500	7,612,500
3	Institutional strengthening	0	524,500	524,500
3.1	Administrative governance consulting services		105,000	105,000
3.2	Computer systems support		157,000	157,000
3.3	Cadastral modernization		210,000	210,000
3.4	Training plan		52,500	52,500
4	Associated costs	0	6,000	6,000
	Expropriations		6,000	6,000
	Total	7,500,000	7,500,000	15,000,000
		%	50	100

- 2.17 **Financial conditions** The Município of Ponta Grossa (MPG) has asked the Bank to use the Local Currency Facility (LCF). This program will be implemented through resources drawn from the United States dollar Single Currency Facility of the Bank's Ordinary Capital, in compliance with the Operational Framework for Lending in Local Currency (document GN-2365-6). To minimize exchange risk, the MPG will be entitled to convert disbursements and amounts outstanding to *reais*, as established in the LCF. In keeping with the PROCIDADES facility, this will address the MPG's expressed need to develop a public borrowing strategy with increasing local currency components, using resources from the Single Currency Facility of the Bank's Ordinary Capital.

III. PROGRAM EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The borrower will be the Município of Ponta Grossa. The Federative Republic of Brazil will guarantee the operation. The executing agency will be the MPG acting through the PEU.

B. Execution and administration

1. Program executing unit

- 3.2 The program will be executed over a three-year period. The PMPG is proposing an execution scheme consisting of a Deliberative Commission and the PEU directly linked to the office of the Mayor (*Prefeito*).
- 3.3 The PEU will be responsible for overall coordination of the program (IDBDocs-Link), assisted by the six municipal departments directly concerned with the operation: (i) Planning; (ii) Finances; (iii) Education; (iv) Public Works and Services; (v) Vocation Training; and (vi) Governance and Legal Affairs. Support units will include the Permanent Bidding Commission (PBC), the município's Auditing Office, and the Office of the Chief Prosecutor of the município of PMPG.
- 3.4 The PEU will consist of PMPG staff, including an executive manager responsible for general program coordination, together with three full-time technical staff: an administrative specialist and two engineers or architects. The Deliberative Commission will be a policy-setting body comprising the five departments directly involved in the program and chaired by the Mayor (*Prefeito*). Its function is to review and approve the annual investment plan and other strategic reports of this operation. **As conditions precedent to the first disbursement, the PEU and the Deliberative Commission must have been officially established by decree.**
- 3.5 The PEU will also be responsible for coordinating and executing the various program actions and interventions, and will act as sole PMPG interlocutor with the Bank, fulfilling the following functions: (i) planning of program investments and budgetary coordination with the corresponding departments; (ii) evaluation of final designs of program works; (iii) preparation and support for procurement of works, goods, and services; (iv) coordination and supervision of any necessary expropriation plans; (v) control and monitoring of works supervision and inspection; (vi) coordination and supervision of environmental aspects; (vii) oversight of accounting and record-keeping, presentation of disbursement requests and statements of account; (viii) physical and financial oversight, and preparation of the program's physical and financial progress reports; (ix) assuring and coordinating fulfillment of contractual causes contained in the loan contract; (x) monitoring and evaluation of the midterm outcomes and the logical framework targets and indicators; (xi) development of management and accounting systems for physical and financial monitoring; (xii) preparation of annual work plans (AWPs); (xiii) preparation of terms of reference for consulting firms; (xiv) preparation of all

- technical and administrative documentation relevant to bidding and contracting; and (xv) preparation of other reports as requested by the Bank.
- 3.6 The PBC will review and make decisions on procurement of works, goods, and services for the program.
- 3.7 The Works Department, the body responsible for supervising PMPG works, will perform engineering inspection and supervision of the works and prepare the corresponding progress reports on their quality and physical advance. The latter department will also ensure sure environmental technical specifications are satisfied. The PEU will be assisted by the PMPG legal advisory service, which will be responsible for coordinating, managing, and executing actions relating to the program's legal aspects, either directly or through third parties. The PMPG accounting oversight service will also assist, with the following functions: (i) analysis of account payments made from public resources transferred to the entities in question; (ii) monitoring and collection of benefit deductions withheld for the National Social Security Institute (INSS) in services provided to the município by the consulting firms; (iii) analysis of procurement contracts; (iv) preparation of the budget; and (v) issuance of decisions and procedures in relation to account rendering.
- 3.8 Operating Regulations are not considered necessary because the functions assigned to the PEU have been centralized as have the coordination mechanisms set up with the PMPG department. Also, the eligibility criteria for the multiple program works described in this report have been defined.

2. Environmental considerations

- 3.9 The environmental specifications and considerations envisaged for the program are defined in the Environmental Assessment Report (RAA),¹⁰ which was prepared by the PMPG and approved by the Bank. The report sets out: (i) the environmental eligibility criteria; (ii) the program's social and environmental impacts; (iii) instructions for processing the environmental permit for the works; and (iv) procedures for preparing environmental monitoring routines.
- 3.10 In the case of investments in program-financed roads and buildings, the corresponding environmental permits must be obtained from the Paraná Environment Institute (IAP). Authorizations for the works in the program's representative sample have already been processed in the IAP and should be issued shortly. Permits for new school buildings are issued exclusively by the Municipal Planning Department, the agency responsible for issuing building permits.

C. Procurement of goods and services

- 3.11 Works, goods and related services, and consulting services will be procured in accordance with the Bank's procurement policies and procedures. International competitive bidding will be required for contracts for works in an estimated amount

¹⁰ *Relatório de Avaliação Ambiental* in Portuguese (IDBDocs-Link).

of US\$25 million or more, and for goods and related services of US\$5 million or more. National competitive bidding will be used for contracts for works in amounts between US\$500,000 and US\$25 million, and for goods in amounts between US\$100,000 and US\$5 million. Shopping will be used for contracts for works in amounts of less than US\$500,000 and for goods in amounts of less than US\$100,000. All consulting services contracts of US\$200,000 or more must be advertised internationally; in the case of consulting services contracts of less than US\$1 million, the shortlist may consist entirely of national consultants. Works, goods, and services will be procured in accordance with the procurement plan presented in Annex II.

- 3.12 The risk analysis (paragraph 4.11) classifies this program as being of moderate risk; accordingly, supervision will be flexible, as provided in the PROCIDADES credit lending facility. As the executing agency has no prior experience with the Bank, works, goods, services and consulting services will be reviewed *ex ante* for all procurement in year one, reckoned from the date on which the operation is declared eligible by the Bank. The first disbursement will also be reviewed *ex ante*, to enable the Bank to provide guidance and verify the PMPG's capacity. After the first disbursement and initial procurement, the Bank may adopt the *ex post* review modality for the remainder of the program.

D. Recognition of expenses

- 3.13 The PMPG has incurred expenses during program preparation, in connection with a number of works eligible for financing from the counterpart contribution. The PMPG has asked the Bank to recognize as part of the local counterpart contribution expenses incurred between the date of approval of the loan request by COFIEX,¹¹ and the date of approval of the operation, to a maximum of US\$5.1 million for works in the education component. These works were contracted in accordance with local legislation. In addition to complying with program eligibility criteria (paragraph 2.4) and the Bank's procurement policies, expenses may only be recognized with supporting documentation such as contracting documents and tax vouchers, or other documents evidencing the outlays for the specific works.

E. Execution period and disbursement timetable

- 3.14 Presented below is the disbursement timetable envisaged for the three-year program. The execution period is relatively short, because 80% of the local counterpart will already have been invested by the time the first disbursement is released, and because the transport component will be fully executed with just three calls for tenders (see Annex II - Procurement Plan).

¹¹ The consultation letter was approved through COFIEX Recommendation No. 891, dated 4 September 2006. Recognition of expenses is being requested from that date. The Bank's policy states that expenses are recognized from the date on which an operation enters the pipeline, that is the date on which Project Abstract is approved. The present operation entered the pipeline on 27 February 2007.

Table 3.1: Disbursement timetable (US\$ million)

Source of Financing	Year 1 (2008)	Year 2 (2009)	Year 3 (2010)	TOTAL
IDB	2.25	3.75	1.50	7.50
LOCAL	6.0	1.00	0.50	7.50
TOTAL	8.25	4.75	2.00	15.00
%	55.0%	31.7%	13.3%	100%

F. Maintenance of the works

- 3.15 The borrower will take such steps as are necessary to ensure that the goods and works constructed under this program are maintained in accordance with generally accepted technical standards; and will submit an annual maintenance report to the Bank in the first quarter of each year for the duration of the program and for three years after the last disbursement. If the reports or Bank inspections show maintenance is less than adequate, the borrower must take the necessary measures to correct the deficiencies identified.

G. Revolving fund and external audit

- 3.16 To advance resources for the Bank-financed activities, a revolving fund will be created for up to 10% of the financing. The executing agency will present to the Bank a semiannual report on the revolving fund within 60 calendar days after the end of each six-month period.
- 3.17 The PEU will present the program's audited annual financial statements for the duration of the program. The external audit will be performed by the state Auditing Office.¹² The program's annual audited financial statements will be presented within 180 days¹³ after the fiscal year-end, and the program's closing audit report will be presented within 180 days after the last disbursement.

H. Monitoring

- 3.18 Program execution will be monitored by the Bank's Country Office in Brazil. As part of the initial report, the PEU will present to the Bank the final version of the annual work plan (AWP) for year one, together with a detailed program execution timetable. The PEU will also present to the Bank the annual progress reports, within 90 days after the close of each year. The reports will show the extent to which output indicators in the logical framework and the AWP's have been reached.

¹² The state Auditing Office is one of the three oversight bodies certified by the Bank to perform audits in Brazil.

¹³ An exception to Bank policy is being requested at the express wish of the state of Paraná Auditing Office, to extend the 120 day deadline to 180 days, owing to the large number of operations currently in execution or to be approved in the state, because the Office does not have the personnel to perform all of the audits by the same deadline.

I. Monitoring and evaluation system

- 3.19 To ensure effective monitoring of program activities, the PEU will implement a management and financial-accounting oversight system, compatible with the Bank's systems, that will be able to monitor the indicators of this operation. The indicators for this system are based on the logical framework (Annex I) and include: (i) monitoring of physical progress and accomplishment of annual program targets and those of specific components; (ii) evaluation of the outcomes of these actions and projects; and (iii) program efficiency and effectiveness. The management system will need to be of the specifications and capacity agreed upon with the Bank, in order to migrate information to the general PROCIDADES information system to be put in place by the Bank for management of projects and programs funded under the lending facility. **Implementation of the management and financial-accounting oversight system will be a condition precedent to the first disbursement.**

J. Midterm and final evaluations

- 3.20 The PEU will present to the Bank a midterm evaluation 90 days after the date on which 50% of the financing has been disbursed, or 18 months into the program, whichever ever occurs first. It will also present to the Bank a final evaluation, which will serve as input for the Project Completion Report (PCR) 90 days after the date on which 90% of the financing has been disbursed. These evaluations will describe: (i) the outcomes of financial execution by component; (ii) the extent to which target outcomes and outputs have been reached, and the progress in terms of expected impacts, based on the indicators in the logical framework (Annex I); (iii) the extent to which the work satisfies environmental requirements and specifications in the RAA and the corresponding permits; (iv) the extent to which operational and maintenance tasks on completed works have been carried out; (v) a summary of the most relevant socioenvironmental impacts; (vi) the extent to which contractual commitments have been fulfilled; and (vii) a summary of the results of all program audits. Once they have been accepted by the Bank, the two evaluations will be made available to the public on the PMPG website. These evaluations will be performed by consulting firms to be hired by the PEU, out of the loan financing.

IV. VIABILITY AND RISKS

A. Technical viability

- 4.1 The program works are considered to be of low complexity from an engineering standpoint and do not pose any particular difficulty from a technical standpoint, or in their construction, operation, or maintenance. Conventional construction technologies will be used in school building and road infrastructure works.

- 4.2 A sample of projects, amounting to US\$8.8 million, or 58.7% of the value of program investments,¹⁴ has been prepared and analyzed. It was confirmed that the projects had been prepared in accordance with generally accepted engineering standards and principles, and represent technically viable alternatives that have been widely tested in similar conditions in the country. These projects were reviewed from the technical, financial, and environmental standpoints by qualified specialists, and rated viable in terms of sustainability. Detailed and adequately funded budgets are also available. The final engineering designs for first group of program works (those contained in a sample of the different components, to be executed in year one), have been completed and are ready for calls for tender.
- 4.3 The project team confirms that the PMPG is maintaining the infrastructure adequately, as shown by the good state of its road network and school facilities under its responsibility. Given the importance of maintaining the works to ensure the expected benefits, the borrower will maintain all program works and facilities in accordance with generally accepted technical standards. The borrower will also present to the Bank an annual report on the maintenance of works and equipment, starting in year two of the program, and continuing thereafter until three years after the last disbursement of the financing (paragraph 3.15).

B. Socioeconomic viability

- 4.4 Given the social nature of the activities of the present operation, the analysis was based on cost-efficiency criteria for all components.
- 4.5 **Education component.** The costs considered for the evaluation were investment costs valued at efficiency prices and compared with control indicators developed for the Urban Paraná II program (1405/OC-BR) funded by the Bank, and now standardized for PARANACIDADE.¹⁵ Table 4.1 shows the cost per pupil of the new works and the remodeling of basic education and preschool infrastructure included in the representative sample. The per-pupil cost of remodeling is relatively low because the infrastructure and remodeling works are mostly minor and many pupils stand to benefit. For preschool education, the cost is higher, since current coverage will expand by 4%. The results of this cost-efficiency analysis fall within the parameters of similar interventions in the state and the rest of the country.

¹⁴ This sample included 70.5% of the total value of the education component and 29.5% of the total value of the mobility and transport component.

¹⁵ PARANACIDADE is a legal entity created under private law by the state of Paraná to promote urban, regional, and institutional development actions on behalf of the state's municípios and to administer the State Urban Development Fund set up in 1988.

Table 4.1: Economic cost-efficiency indicators - Education component

Action	Investment amount (US\$000s)	Number of direct beneficiaries	Cost per user (estimated US\$)
New school (basic education)	381	265	1,438
Remodeling of schools (basic education)	1,717	2,501	686
New CMEIs	890	290	3,072
Remodeling of CMEIs	254	301	845

- 4.6 **Mobility and transport component.** The roads to be improved under this program are essential for improving accessibility to and from the beneficiary neighborhoods; but, as these areas are on the outskirts of the city, traffic demand is low and it is impossible to apply traditional economic evaluation criteria, since the direct benefits in operating costs and shorter travel time are low, and there is no methodology to measure the social benefits for residents of these disadvantaged neighborhoods. Accordingly, the eligibility of the roads will also be judged by using and adapting cost-efficiency criteria developed for the Urban Paraná II program (1405/OC-BR) and other criteria developed for PARANACIDADE, which make it possible to consider the number of families benefited with this type of intervention, approximated through the number of occupied lots in the project area itself, which will benefit from road surfacing.
- 4.7 The four eligibility criteria to be met by urban roads to be surfaced using program resources are: (i) **location:** the roads must be situated in low-income outlying areas; (ii) **cost-efficiency of the work:** the total cost of the work (in 2007 R\$) by number of occupied lots adjacent to the road to be surfaced must not exceed the limits indicated in table 4.2, depending on type of servicing and soil quality; (iii) **physical index:** this reflects the number of families benefiting from the intervention based on the total area to be paved (m²) by the number of lots adjacent to the road, and must be within the limits indicated in table 4.2 for each type of surface; and (iv) **public transport service:** the number of public transport services provided should be at least 10 per working day.
- 4.8 On the basis of the results obtained from applying these eligibility criteria to actions in the component's representative sample, it was necessary to consider adjustment factors according to the quality and degree of expansion of the soils in each neighborhood. Table 4.2 shows the limiting values for eligibility, cost-efficiency, and physical index criteria. Both indicators depend on the type of paving surface, while the cost-efficiency index also depends on the quality of soils in which the surfacing work is done.
- 4.9 In addition, in cases where a number of roads to be surfaced will be connecting neighborhoods now cut off, the occupied lots are likely to be less than indicated in table 4.2, owing to the typical topographic conditions of the watercourse. Consequently, the criterion of occupied lots needs to be adjusted, and in this

particular case will consider all lots to be served by public transport service within a 300-m radius on either side of roads in the neighborhood served by the bus lines that will be using the new connection. The other eligibility criteria parameters remain unchanged. As the area around a connection between neighborhoods could be larger, alternatively the PMPG may present a traditional economic feasibility study showing that the return on the investment, measured by the economic internal rate of return (EIRR), is at least 12%.

Table 4.2: Economic cost-efficiency indicators - Mobility component

Type of soil			Type of surface	Cost-efficiency index ^{1,2}	Physical index ^{2,3}
CBR*	Expansion index	Extension with deficient soil			
> 5	≤ 2	67%	Asphalt	R\$5,180/occupied lot	95 m ² / occupied lot
			Polyhedral stone	R\$4,960/occupied lot	135 m ² / occupied lot
< 5	> 2	33% - 67%	Asphalt	R\$5,957/occupied lot	95 m ² / occupied lot
			Polyhedron stone	R\$5,704/occupied lot	135 m ² / occupied lot
< 5	> 2	> 67%	Asphalt	R\$6,734/occupied lot	95 m ² / occupied lot
			Polyhedron stone	R\$6,448/occupied lot	135 m ² / occupied lot

1 January 2007 prices, represent net present value including investment plus maintenance costs.

2 Occupied lots are counted in a 100- wide strip (one block) on each side of the street with bus service.

3 In the case of a connection between neighborhoods, occupied lots can be counted in a 300-strip.

* California bearing ratio

C. Institutional viability

- 4.10 As part of program preparation, a number of studies and evaluations were made to determine PMPG institutional capacity, including: (i) institutional diagnostic of the PMPG; (ii) analysis of operational risks using the new Project Risk Assessment Tool (PRAT); and (iii) and evaluation of the PMPG's execution capacity, using the Institutional Capacity Assessment System (ICAS).
- 4.11 The PMPG institutional diagnostic (see paragraph 1.10) describes a município with a high level of administrative, fiscal, financial, and technical governance, resulting from good administrations, planning systems, and appropriate investments over the last 10 years. Nonetheless, a number of areas show weaknesses or require updating, which will be supported by the institutional strengthening component. The analysis made with the PRAT tool showed that the PMPG presents moderate fiduciary risk

(18.35%) (IDBDocs-Link). The main risk factors identified were: (i) possible change of administration after the 2008 municipal elections; and (ii) the município's lack of experience in directly executing programs financed by international agencies. As to the ICAS evaluation, the results matrix prepared points to satisfactory progress in developing capacity for programming and organization, execution, and oversight, thus ensuring an overall low-risk environment.

- 4.12 The analysis suggests the creation of a PEU with activities confined to this operation. This has been set up with direct links to the office of the Mayor, with full operational autonomy and a small highly qualified, full-time multidisciplinary team, reporting to a general coordinator. In view of the município's lack of experience in executing internationally funded programs, it was decided to contract a management and monitoring system (paragraph 3.19), to assist with the programming and monitoring of works and actions, accounting and finance, legal aspects and the preparation of the program's financial reports, performance reporting, and other monitoring reports.

D. Financial viability

- 4.13 To evaluate the PMPG's financial capacity to execute the program and verify its capacity to repay the loan, an analysis was performed of historical and projected PMPG finances (IDBDocs-Link).

1. Historical financial analysis

- 4.14 Table 4.3 provides a comparative summary of the limits set by current legislation, particularly Article 19 of the LRF (Law 101/00 and Article 7 of Federal Senate Resolution (RSF) 43/01), on ratios calculated from the PMPG's financial statements for 2004-2006. The comparison shows that the PMPG has been meeting the statutory limits set by the LRF and other related legislation that regulates municipal borrowing, and consequently is eligible by law to borrow externally.

Table 4.3: Limits set by the Fiscal Accountability Act

Statutory limit and regulation	Statutory limit	Calculated limit 2004	Calculated limit 2005	Calculated limit 2006
Payroll expenses / net current income (NCI)	60.00%	49.42%	43.90%	50.38%
Operations / NCI	16.00%	0.00%	0.00%	0.00%
Amortizations and other liabilities / NCI	11.50%	3.73%	4.83%	4.71%
Net consolidated debt / NCI	1.20 times	0.55 times	0.48 times	0.54 times

- 4.15 As shown in table 4.4, current income grew by 0.57% per year in real terms in 2001-2006, at 2006 prices. Over the same period, current expenditure, at 2006

prices, decreased at an annual average rate of 2.20%, while tax revenues fell by an average of 0.30%. Tax revenues shrank by 15.40% in real terms in 2001-2004, but from 2004 to 2006 the trend reversed, and revenues rebounded by 14.60%. These results show that the PMPG is beginning to generate a surplus. In other words, the PMPG is generating savings to finance new investment.

- 4.16 The table shows that PMPG tax revenues continue to grow, while measures are being applied to contain the growth of current expenditure. The institutional strengthening component includes a number of activities to strengthen the tax administration (paragraph 2.13) and make it possible to sustain the recent trend. The table also shows that, in 2001-2006, the PMPG posted a primary deficit in 2002 and 2003, and a primary surplus in other years.

Table 4.4: Summary of PMPG income and expenditure, 2001-2006
(R\$ thousand at constant 2006 prices)

Description	Year					
	2001	2002	2003	2004	2005	2006
1. Current income	223,082.74	191,908.61	192,113.67	203,984.86	213,270.72	221,004.91
2. Current expenses	205,389.94	178,717.37	171,524.63	174,011.63	174,957.71	181,762.59
3. Current saving (1 - 2)	17,692.80	13,191.24	20,589.04	29,973.23	38,313.01	39,242.32
4. Capital expenditure	6,273.47	17,057.08	20,950.21	27,916.19	23,447.35	32,688.42
5. Debt service	9,616.92	8,507.23	8,797.73	6,710.40	9,666.30	9,717.74
6. Surplus/deficit (3 - 4 - 5)	1,802.41	(12,373.07)	(9,138.90)	(4,653.36)	5,199.36	(3,163.84)
7. Income from equity	1,296.21	1,050.03	261.22	1,936.08	4,834.92	5,051.73
8. Credit operations	0	2,952.19	1,463.39	6,018.49	5,705.15	1,481.32
9. Surplus/deficit (6 + 7 + 8)	3,098.62	(8,370.85)	7,434.29	3,301.21	15,739.44	3,369.21
10. Budgetary income	224,378.95	195,910.83	193,838.28	211,939.43	223,810.79	227,537.96
11. Financial applications	(1,209.35)	(357.26)	(864.75)	(732.10)	(2,301.74)	(2,557.18)
12. Credit operations	(0)	(2,952.19)	(1,463.39)	(6,018.49)	(5,705.15)	(1,481.32)
13. Disposal of assets	(0)	(0)	(0)	(0)	(0)	(181.94)
14. Net income (10-11-12-13)	223,169.60	192,601.38	191,510.14	205,188.84	215,803.90	223,317.52
15. Budgetary expenditure	221,280.33	204,281.68	201,272.56	208,638.22	208,071.36	224,168.75
16. Debt interest and fees	(2,024.54)	(1,091.90)	(854.44)	(392.16)	(1,708.41)	(1,749.35)
17. Amortization	(7,592.38)	(7,415.33)	(7,943.29)	(6,318.24)	(7,957.89)	(7,968.39)
18. Net expenses (15-16-17)	211,663.40	195,774.45	192,474.84	201,927.82	198,405.06	214,451.01
19. Primary result (14-18)	11,506.20	(3,173.07)	(964.70)	3,261.02	17,398.85	8,866.51

2. Financial projection

- 4.17 Table 4.5 shows PMPG financial projections for 2007-2016, based on budget execution in 2001-2006 and the expected trend of various parameters in the

projection period.¹⁶ The figures show that the PMPG has the capacity to provide the counterpart funding and meet the financial obligations arising from the loan; even so it will post a large surplus and a positive primary result in all of the years studied. It is also concluded that the PMPG's internal revenue guarantees program sustainability, without affecting the quality of public services that the PMPG provides to the inhabitants of Ponta Grossa.

Table 4.5: Summary of projections of PMPG income and expenditure, 2007-2016 (R\$ thousand)

Description	Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Current income	245,810	263,770	276,700	290,540	305,060	320,580	336,890	354,030	372,060	390,980
2. Current expenses	199,920	201,150	210,050	220,550	231,580	243,160	255,310	268,080	281,480	295,560
3. Current saving (1-2)	45,890	62,620	66,650	69,990	73,480	77,420	81,580	85,950	90,580	95,420
4. Capital expenditure	62,460	65,150	65,960	54,920	51,480	49,560	52,040	54,640	57,380	60,240
4.1.1. PPGT/IDB program	0	5,700	8,560	9,960	4,280	0	0	0	0	0
IDB loan	0	2,850	4,280	4,980	2,140	0	0	0	0	0
PMPG counterpart	0	2,850	4,280	4,980	2,140	0	0	0	0	0
4.1.2. Other investments	62,460	59,450	57,400	44,960	47,200	49,560	52,040	54,640	57,380	60,240
5. Debt service	23,300	24,710	27,550	29,180	30,850	33,120	34,660	36,280	37,990	39,770
5.1 - Interest/fees	11,650	12,360	13,350	14,270	15,190	15,980	16,700	17,460	18,260	19,090
5.2 - Amortization of principal	11,650	12,350	14,200	14,910	15,660	17,140	17,960	18,820	19,730	20,680
6. Surplus/deficit (3-4-5)	(39,870)	(27,240)	(26,860)	(14,110)	(8,850)	(5,260)	(5,120)	(4,970)	(4,790)	(4,590)
7. Income from equity	3,520	3,700	3,500	3,680	3,860	4,050	4,250	4,470	4,690	4,920
8. Credit operations	42,350	44,410	44,430	47,140	46,410	46,480	48,800	51,240	53,800	56,500
8.1. Domestic borrowing	42,350	41,560	40,150	42,160	44,270	46,480	48,800	51,240	53,800	56,500
8.2. External borrowing	0	2,850	4,280	4,980	2,140	0	0	0	0	0
9. Surplus/deficit (6+7+8)	6,000	20,870	21,070	36,710	41,420	45,270	47,930	50,740	53,700	56,830
10. Budgetary income	291,680	311,880	324,630	341,350	355,330	371,110	389,950	409,750	430,550	452,410
11. Financial investments	(810)	(900)	(1,050)	(1,100)	(1,160)	(1,220)	(1,280)	(1,340)	(1,410)	(1,480)
12. Credit operations	(42,350)	(44,410)	(44,430)	(47,140)	(46,410)	(46,480)	(48,800)	(51,240)	(53,800)	(56,500)
13. Disposal of asset s	0	0	0	0	0	0	0	0	0	0
14. Net income (10-11-12-13)	248,520	266,570	279,150	293,110	307,760	323,410	339,870	357,170	375,340	394,430

¹⁶ The analysis considered the 2007 real budget, but with a 10% reduction in the amount envisaged in the Annual Budget Act (LPA), since annual budget execution has been 9% - 12% below the values indicated in the LPA. The basic assumptions underlying the projections include: (i) between 2008 and 2009, amounts were calculated on the basis of the PMPG fiscal targets approved in 2006; (ii) between 2010 and 2016, the income calculation assumed a growth rate of -5.0% per year for taxes, income from equity, income from services, federal and state transfers, other current income and domestic borrowing; (iii) the project was assumed to start in 2008 with PMPG counterpart funding equivalent to the 50-50 *pari passu*; (iv) PMPG investment levels, which in 2001-2006 averaged 9% of budgetary expenditure, will rise to 16% without counting program investments; and (v) payroll expenditure, including active and retired workers, will be the same as in 2001-2006 (i.e. 5% per year).

Description	Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
15. Budgetary expenditure	285,680	291,010	303,560	304,640	313,910	325,850	342,020	359,010	376,850	395,580
16. Interest and fees	(11,650)	(12,360)	(13,350)	(14,270)	(15,190)	(15,980)	(16,700)	(17,460)	(18,260)	(19,090)
17. Amortizations	(11,650)	(12,350)	(14,200)	(14,910)	(15,660)	(17,140)	(17,960)	(18,820)	(19,730)	(20,680)
18. Net expenditure (15-16-17)	262,380	266,300	276,010	275,460	283,060	292,730	307,360	322,730	338,860	355,810
19. Primary result	(13,860)	270	3,140	17,650	24,700	30,680	32,510	34,440	36,480	38,640

E. Environmental impact

4.18 This operation has been given a category "B" classification¹⁷. The impacts were evaluated in the program's RAA, which also specified measures for impact mitigation and compensation and environmental oversight, to ensure the program's expected benefits. The RAA has been posted on the PMPG website.¹⁸ Despite the positive impacts provided by an improvement in the quality of life and environment in Ponta Grossa, the implementation of program works will also cause short-term and small-scale negative impacts relating to changes in the physical and socioeconomic environment, mainly during the infrastructure works. Essentially, the following impacts may be generated: (i) changes in traffic flows in streets during works execution; (ii) generation of noise, dust, and air pollution in the vicinity of the works; and (iii) interference with and inconvenience to the daily activities of people living in neighboring areas and areas around the works themselves. The environmental impact mitigation measures envisaged in the RAA are: (i) environmental oversight during works execution; (ii) worker health and safety; (iii) public relations; and (iv) recovery of degraded areas (works zone, loan areas, waste disposal areas, etc.). The analysis of the technical information presented in the RAA shows that the program promotes a rigorous combination of technical conditions at low social and environmental cost, in terms of low-intensity impacts and the ease with which impact mitigation measures can be implemented.

F. Benefits and beneficiaries

4.19 Program execution will produce significant social and economic benefits for the município of Ponta Grossa, leading to a better quality of life for its inhabitants. The specific results of this operation are: **(a) education component:** (i) building or remodeling of schools in basic education, which will serve 10,420 pupils in the network, or 46% of primary school pupils; and (ii) building or remodeling and equipping of CMEIs which will serve 591 pupils in the preschool network, making it possible to expand the municipal network by 4%; **(b) mobility and transport component** (i) reduction in transport costs and times, directly benefiting public transport passengers from outlying low-income neighborhoods; (ii) safer passenger transport; and (iii) improved connections between outlying neighborhoods,

¹⁷ (IDBDocs-Link policy) (IDBDocs-Link form)

¹⁸ The public hearings on the RAA were held on 14 August 2007 in the City Hall. See: <http://pg.pr.gov.br/pd-raa>

permitting their integration. A more accessible transport system with greater mobility will make economic activities in the city more efficient, and increase access by low-income groups to the work place and public and social services; and **(c) institutional strengthening component:** (i) more efficient public governance; (ii) better trained civil servants; and (iii) citizens who are more satisfied with municipal public services.

G. PTI/SEQ classification

- 4.20 This operation qualifies as a poverty-targeted investment (PTI), and as a social-equity-enhancing project (SEQ), insofar as the program benefits low-income population groups through better access to the município's basic and preschool education services, and through the enhanced mobility of public transport service in low-income neighborhoods.

H. Risks

- 4.21 The analysis performed with the new PRAT tool finds that the project is of moderate risk (18.35%) (IDBDocs-Link). The main risk factors identified are¹⁹: (i) the município lacks direct experience in implementing programs financed by international agencies; and (ii) a new administration is possible following the 2008 municipal elections.
- 4.22 In evaluating the magnitude of the risk arising from lack of experience with operations such as the present one, it needs to be remembered that the PMPG has implemented similar multiple works programs through works funded by PARANACIDADE, using Bank resources and funds from the Paraná Urban Development Fund. In any event, to mitigate this risk, and to enable the Bank to provide guidance and strengthen PMPG capacity for procedures of this kind, it was agreed that all procurement and contracting of works, goods and services, and consulting services in year one, and the procedure for the first disbursement, will be reviewed ex ante by the Bank (paragraph 3.12). This condition will facilitate the learning process and application of Bank policies. To further reduce this risk, the PEU will also contract a suitable management and oversight system to monitor program activities in accordance with Bank requirements. Implementation of the system will be a condition precedent to the first disbursement (paragraph 3.19).
- 4.23 Any risk arising from a possible change of administration after the 2008 municipal elections can be mitigated through greater civil society participation in the city's administration. Accordingly, in addition to public hearings already held during preparation of the operation, the project team asked the PMPG to disseminate the program more widely, so as to spark further public interest still, and thus generate a greater sense of ownership in the community, particularly among the program's direct beneficiaries.

¹⁹ Initially, insufficient public hearings were identified as a risk; nonetheless, the hearings were held after the risk evaluation workshop (paragraph 4.18).

BRAZIL
PONTA GROSSA URBAN INFRASTRUCTURE IMPROVEMENT PROGRAM
(BR-L1104)

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>GOAL</p> <p>To improve the quality of life for inhabitants of the município of Ponta Grossa.</p>	<ul style="list-style-type: none"> Public Services Supply Index (IOSP). By the end of the program, the Ponta Grossa IOSP has risen by 10%, to 0.44 (baseline 0.40) (PARANACIDADE, 2005). 	<ul style="list-style-type: none"> Annual classification of municípios in the state of Paraná by PARANACIDADE. Final program evaluation report 	<ul style="list-style-type: none"> IOSP factors unrelated to the program continue to show satisfactory progress.
<p>PURPOSE</p> <p>To enhance the quality of public services and increase service coverage.</p> <p>To consolidate school network at the basic education level and expand preschool facilities.</p> <p>To improve mobility conditions of passenger transport.</p> <p>To improve PMPG administrative governance.</p>	<ul style="list-style-type: none"> Number of primary school pupils that benefit from improvements to school infrastructure: 10,420 pupils benefit by the end of the program (baseline: 0). Broadening of preschool education coverage: 591 new places by the end of the program (baseline: 3,285 students served in 2007). 5% reduction in bus journey times on routes circulating on paved roads by the end of the program (baseline 40 minutes). 23% reduction in average length of bidding process. Duration of the process has been shortened by 15 days by the 	<ul style="list-style-type: none"> Final program evaluation report. Enrolment statistics in Municipal Preschool Centers (CMEIs), Department of Education. Final program evaluation report. Floating vehicle study in the corridors intervened under the program. Annual program evaluation reports. Final program evaluation report. Report from the Municipal Finance 	<ul style="list-style-type: none"> The Municipal Department of Education maintains its policy of a maximum of 35 pupils per classroom in basic education, and maintains or improves the ratio of 15 pupils per qualified teacher.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>end of the program (baseline: 65 days, average 2007).</p> <ul style="list-style-type: none"> • 5% reduction in the average number of bidding processes per year in the Prefecture. Number of bidding processes has decreased by 42 processes per year by the end of the program (baseline: 840 processes, average of the last few years - data for 2004-2007). 	<p>Department</p>	
<p>OUTPUTS</p> <p>Education component</p>	<p>By the end of year 1, works completed in the following projects:</p> <ul style="list-style-type: none"> • At least one new school built and operating. • At least 25 schools remodeled and/or expanded and operating • At least two municipal CMEIs built and operating. • At least three CMEIs remodeled and/or expanded and operating. 	<ul style="list-style-type: none"> • Program progress and execution reports. • Program progress and execution reports. • Program progress and execution reports. • Program progress and execution reports. 	<ul style="list-style-type: none"> • PMPG continues to have the political will to keep on with the program.
<p>Mobility and transport component</p>	<ul style="list-style-type: none"> • Road surfacing works on 9.6 km of urban streets completed by the end of year 1. • Road surfacing works on 12.7 km of urban streets completed by the end of year 2. • Road surfacing works on 12.7 km of urban streets completed by the end of year 3. 	<ul style="list-style-type: none"> • Program progress and execution reports. • Program progress and execution reports. • Program progress and execution reports. 	

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Institutional strengthening component	<ul style="list-style-type: none"> • Information technology master plan commissioned and implemented by the end of year 1. • New computer hardware procured by the end of year 1. • Consulting services to review and streamline PMPG processes and procedures concluded by the end of year 1 and new processes put in place by the end of year 3. • Action plan for modernization of the property cadastre and the plan for periodic updates of official property assessments for the building and land tax completed by the end of year 2. • Annual training plan prepared in year 1 and implemented by the end of year 2. 	<ul style="list-style-type: none"> • Program progress and execution reports. • Program progress and execution reports. • Program progress and execution reports. • Program progress and execution reports. • Program progress and execution reports. 	
ACTIVITIES	<ul style="list-style-type: none"> • See program costs chart. 	<ul style="list-style-type: none"> • Program progress and execution reports. 	<ul style="list-style-type: none"> • The dollar exchange rate does not fall below R\$1.90.