

SÃO PAULO FAVELA IMPROVEMENT PROGRAM

(BR-0210)

EXECUTIVE SUMMARY

BORROWER: Government of the Municipality of São Paulo

GUARANTOR: Federative Republic of Brazil

EXECUTING AGENCY: Department of Housing and Urban Development (SEHAB)

AMOUNT AND SOURCE: IDB: US\$150 million (OC)
Local counterpart funding: US\$100 million
Total: US\$250 million

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 25 years
Disbursement period: 4 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%

OBJECTIVES: The general objective of the program is to improve social and environmental conditions for residents of low-income settlements and adjacent areas in the municipality of São Paulo. Its specific objectives tie in with the nature of the two main components: development of favelas [squatter settlements] and legalization of nonconforming subdivisions.

The specific objective of the favela development component is to provide legal housing to about 11,000 low-income families living in favelas in the municipality of São Paulo. A central premise of the activities planned for this component is respect for existing ties to the community and to the area, avoiding whenever possible the resettlement of families. The aims of the component are to (i) safeguard the physical integrity of residents by lowering the risk of accidents caused by fire, flooding, landslides, and other hazards; (ii) give the target population access to basic sanitation and other public services, so as to make current favela districts part of the fabric of city life; (iii) ease overcrowding, improving the quality of life through planning and establishment of neighborhoods; (iv) expedite the legalization of land tenure; and (v) help residents of these communities become full members of their urban society, instilling in them a renewed sense of belonging and civic involvement.

The aims of the subdivision legalization component are: (i) for the municipality, to bring newly-conforming areas under city planning and land-use requirements; to reduce the risk of erosion, flooding, and landslides; to lower the risk of infectious diseases; to bring in public utilities; to boost tax revenues once legalized properties are added to the property tax rolls; and to penalize non-complying developers; and (ii) for owners of lots, to provide a dwelling situated on a legal public way, with adequate infrastructure and hence affording better living conditions; and to increase their personal wealth once they have a legal instrument attesting to legal tenure of land and ownership of their residence.

CONCEPT FOR THE PROGRAM:

The phenomenon of burgeoning squatter settlements (favelas) in São Paulo can be attributed in large measure to a series of factors that have made for a rigid land and housing supply in the face of growing demand and low purchasing power. To address the problem at the roots, the Municipality has been taking measures to curtail the growth of these settlements. On the supply side, such measures have included easing controls for the rent system and the adoption of more flexible city planning and land-use standards, which were very stringent and restrictive and made it expensive to develop new projects and difficult to legalize many of those already in place. A measure to assist on the demand side is the creation of a Municipal Housing Fund for the long-term financing of low-income housing, concentrating in that facility all the funding available to the Municipality for housing programs. This will make for the best possible application and recycling of resources. The anticipated combined effect of these measures in the short and medium term in pursuit of the Municipality's housing policy, and the country's macroeconomic stability, has led to the Bank's decision to offer support for this operation, within the framework of its housing and urban development policy. As described below, the program has been designed in that context.

DESCRIPTION:

The program calls for investments to be made on three fronts in pursuit of its objectives: (i) development of favelas, (ii) legalization of subdivisions, and (iii) institution-strengthening and development of housing policies.

Upgrading of favelas (US\$177.8 million). The object of investments in this component is to install and upgrade city services and housing in about 20 favelas. Two housing solutions will be offered in

these projects, for which the favela dwellers will have the right of first refusal: (i) conventional serviced sites 71 m² in size with a 23 m² core housing unit, or (ii) one-, two-, or three-bedroom apartments in multifamily buildings five to eight stories high. The plan is to make available about 9,000 new apartments and 2,000 lots with core housing, which will comply with zoning and land-use requirements. These housing options will have varying market values, to match the different income levels of beneficiaries, who will make a down payment equal to the compensation they will be given for their current dwelling, and will pay the balance with a 25-year mortgage loan. Arrangements for the sale of these apartments and lots are described in chapter III.

The program overall encompasses a broad range of construction projects, public utilities, and basic facilities, including water and sewer systems, road infrastructure (including pedestrian areas), drainage structures, trash disposal systems, street lighting, slope stabilization, reforestation, green areas and sports facilities, parking areas, and construction of apartment buildings and core housing units.

Legalization of nonconforming subdivisions (US\$41.3 million). The goal of this component is to bring approximately 21,000 lots in clandestine and illegal subdivisions into compliance with the law and with city-planning and zoning standards, to benefit some 100,000 residents in the municipality. Investment requirements will vary from one project to another; on average, the estimated cost is US\$3,300 per lot, including surveying, drainage structures, paving, sanitary sewers, water supply, earthwork, street lighting, and ancillary works. Arrangements whereby the Municipality will recover these costs are described in chapter III.

Institution-strengthening and development of housing policies (US\$2.4 million): (i) institutional strengthening of SEHAB, and specifically of the two departments that will work directly with the proposed program: the Low-Income Housing Authority (HABI) and the Property and Zoning Compliance Department (RESOLO). With the institution-strengthening proposed, these units will be able to attain the technical and operational capabilities needed for this program and for future initiatives; and (ii) the program will fund the following sectoral studies to supplement its activities in the low-income housing sector: a diagnosis and action plan for the local rental housing market for low-income residents; and

identification of impediments to the formal supply of new housing for families of scant means. As part of the preparatory work for these studies, an evaluation will be done of the impact of actions being taken by the Municipality under its housing policy.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of February 16, 1995, classified this as a Category III operation. The environmental summary was approved at the Committee's meeting of May 14, 1996, and was forwarded to the Public Information Center on June 4, 1996.

The executing agency produced an environmental report for the program, outlining an environmental management system and environmental eligibility criteria, and made it available for public review.

BENEFITS:

A first benefit of the program will be an increase in the personal wealth of the low-income families it assists, when the Municipality recognizes the property rights of families living in the targeted favelas. As a second benefit, property values in those areas and in currently nonconforming subdivisions will rise thanks to the planned redevelopment outlays, including new basic infrastructure and services and new housing construction. And significant benefits will ensue from the increase in value of property adjacent to the districts and subdivisions that are to be brought into compliance with city plans and ordinances.

No less important are the intangible benefits the program is expected to provide, chiefly (i) by helping to break the circle of poverty and give São Paulo slum dwellers a better life, and offering every program beneficiary the opportunity to become a legal homeowner in the city; (ii) by respecting existing community ties and ensuring that residents will still have ready access to their workplace, by virtue of the plan to relocate as few of the affected families as possible; and (iii) by instilling new communal behavior habits, including those relating to the use of new private and collective inhabitable spaces that will be made available through the apartment option.

The main long-range benefit to the city itself stems from the nature of the housing options afforded by the program, which will make it possible to increase population density and thereby lower the cost of expanding the city, making maximum use of the social infrastructure already in place. Likewise, as property values increase, the municipal government will be able to recoup part of the investment in the short term through city property taxes.

RISKS:

A central premise for the program's success is careful attention to its social components, primarily the provisions for community involvement and organization. Any failing in this respect could jeopardize the implementation of the program and the attainment of its ultimate goals. To counter this critical risk, particular emphasis was placed at the design stage on the development of a "Social Action Plan" that will ensure a comprehensive, multidisciplinary approach to the social features of the proposed operation, with provision for community involvement at every stage. The Social Action Plan will ensure that there is community input at every phase and that health and environmental education programs are offered, that conditions are set in place for organization and strengthening of local social associations, and that permanent channels for consultation and communications between the authorities and community organizations are fostered, so that disputes can be settled in a spirit of cooperation and shared responsibility.

There is a risk that maintenance of the program-funded buildings might be neglected. However, unlike other government-sponsored low-income apartment housing schemes, the proposed program will be giving residents ownership of their housing units, so there is less of a risk that they will allow their buildings to fall into disrepair. It also has been agreed with SEHAB that the Social Action Plan will include arrangements to ensure support for condominium systems. To this end, the module for post-occupation monitoring of beneficiaries includes support and monitoring activities specifically designed to help set up residents' associations and for education programs, to help instill new attitudes and an awareness of the importance of adhering to communal standards and maintaining physical infrastructure in individual apartments and in common areas.

Another potential risk is that the housing solutions being made available under the program could end up, in the short term, in the hands of middle-income families, who would thereby appropriate the program's benefits. In the design of the program, special care was taken to counter this risk: the housing solutions being proposed are, by virtue of their market value, concordant with the expectations of the target population and its ability to pay. Furthermore, the beneficiaries will only be able to sell their units legally after the third year. In that interval, they will have become accustomed to their new standard of living and will be unwilling to return to substandard

housing; likewise, they will capture any further increase in value of their unit over this period.

The term of office of the present municipal administration will finish at the end of 1996. While it appears that current mayoralty candidates support the program proposed herein, there is always a possibility that the priorities of future administrations may shift or that they could adopt a different approach to the problems being addressed with this program. This would jeopardize the continuity of investments needed to resolve, over time, the mushrooming of favelas in São Paulo. However, as was explained above, the works that would be funded by this operation have a socioeconomic impact independent of any future government action.

SOCIAL CLASSIFICATION AND POVERTY TARGETING:

Pursuant to provisions in the Eighth Replenishment document (AB-1704, paragraph 2.15), the proposed program is poverty targeted. In accordance with paragraph 2.13 of that document, the program is classified as an operation pursuing social equity and poverty reduction, inasmuch as it is directed to the urban development sector and the planned investments are targeted to low-income groups (see paragraph 5.24).

THE BANK'S COUNTRY AND SECTOR STRATEGY:

The Bank's strategy and program of operations with Brazil for the 1996-1997 programming cycle conform fully to the Eighth Replenishment objectives. The government is concentrating on systematically eliminating the causes of chronic inflation (and cushioning some of its social repercussions) and on developing a modern economy. The central thrust of the Bank's strategy is to help (a) promote public sector reform and modernization at the federal, state, and municipal levels; (b) foster the opening of the economy, by building more modern production sectors and through the *Redução do Custo Brasil* initiative, which will refurbish and upgrade the country's port and transportation facilities; and (c) narrow the socioeconomic gap and alleviate poverty, by effectively raising social spending and targeting social programs more precisely. In this latter case, particular support will be given to the ongoing decentralization of the public sector, in part by expanding and strengthening ties to local communities and civil society. At the same time, the Bank is continuing with its traditional emphasis on basic sanitation and the environment.

The proposed program is concordant with the above-described strategy, inasmuch as it seeks to satisfy basic needs and improve the quality of life of low-

income residents of São Paulo who are in need of priority attention. The program likewise has taken into account previous Bank experiences in housing finance under initiatives to improve low-income areas of cities. This is an efficient alternative to sites-and-services financing for three main reasons: (i) those benefiting from the program do not need to be relocated; (ii) sunk costs in infrastructure in place can be maximized; and (iii) existing community ties are strengthened. The fruit of the review of these experiences and the emphasis on a sectoral approach to housing and urban development issues was the Bank's new housing finance policy (OP-751) of March 1995.

In keeping with this new Bank policy, and to address the constraints that are impeding the operation of the São Paulo housing market, the program will (i) make it possible for large tracts of land that are physically degraded and illegally occupied, and pose serious environmental risks, to be legalized, serviced and developed and brought into the official city planning and land-use system; and (ii) help bring nonconforming subdivisions into compliance, afford a more flexible housing supply in those areas, and promote more efficient use of urban land in São Paulo.

The IDB financing proposed for the program described herein would provide partial funding for the third phase of a broader favela renewal and development program called PROVER, which began in 1994. As a result of the project team's analysis of this operation, it was recommended to SEHAB (the agency in charge of designing and implementing PROVER) that several elements of the program design be adjusted, to minimize the potential risks discussed in this proposal. These adjustments, which can be considered as the value added by the Bank in this project, were as follows: (i) to provide for a comprehensive social support and monitoring process, which prompted the redesign of the Social Action Plan proposed by SEHAB; (ii) to revise the mechanisms for assigning and financing housing solutions, which led to an increase in the number of alternatives, a beneficiary self-targeting approach, and a simpler and more transparent way to sell the housing solutions; and (iii) to include an environmental analysis of projects, even if local legislation does not require such assessments for ventures of this nature.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The borrower, through SEHAB, is to present the following to the Bank as conditions precedent to the first disbursement: (i) evidence that the program's

Operating Regulations are in force (paragraph 3.4); (ii) terms of reference for the hiring of a consulting firm to study the structural and functional reorganization of HABI and RESOLO (paragraphs 2.10 and 2.11); and (iii) terms of reference for the commissioning of housing sector policy studies (paragraph 2.12).

Special conditions to be complied with during the program are as follows: (i) before directing contractors to begin construction, SEHAB must have the working drawings for the projects (paragraph 3.38); (ii) before awarding any works contract, SEHAB must have the respective monitoring team in place (paragraph 3.38); (iii) contracting and implementation of recommendations of studies on the functional reorganization of HABI and RESOLO (within 24 months after the effective date of the loan contract) (paragraphs 4.7 and 4.14); (iv) progress on the program must be reviewed annually, on the basis of half-yearly progress reports and the impact monitoring and evaluation system agreed upon with the Bank (paragraph 3.33); and (v) presentation to the Bank of interim and final impact assessment reports, using methods and following guidelines agreed on with the Bank (paragraph 3.34). In addition, according to information submitted by SEHAB and reviewed by the project team, provision is being made for retroactive financing, against the local counterpart, of up to the equivalent of US\$45 million in prior expenditures (paragraphs 3.31 and 3.32).

**EXCEPTIONS TO BANK
POLICY:**

The loan will be guaranteed by the federal government, but that guarantee will cover only repayment of the loan, including interest and fees, not the local counterpart or any obligation that is not legally incumbent upon the federal government (paragraph 4.1).

PROCUREMENT:

The thresholds above which international competitive bidding will be required for procurement for this program are US\$5 million for construction contracts and US\$350,000 for goods (paragraph 3.28).

**APPROVAL
PROCEDURE:**

Pursuant to Chapter III, Section 2(a), of the Regulations of the Board of Executive Directors, this operation must be submitted to the Committee of the Whole for consideration.

I. FRAME OF REFERENCE

A. The housing sector in Brazil

- 1.1 In 1964 the Brazilian government established a new Housing Finance System (SFH) by creating the National Housing Bank (BNH) as a second tier banking institution. It was responsible for implementing the National Housing Plan and managing the new system, with a goal of financing two million new dwellings in a decade. Its main functions were to channel financing to various agencies in the sector, including state-run housing companies (COHABs) and private housing cooperatives (COOPHABs). There have been two main sources of financing for the new SFH, in addition to the initial capital from the BNH: (i) resources from the Employee Indemnity Guarantee Fund (FGTS), financed through a compulsory 8% payroll tax; and (ii) resources from the Brazilian Savings and Loan System (SBPE), analyzed under different voluntary savings plans for procuring a home.
- 1.2 In 1986 the government closed the BNH after two decades of operations. This decision was the result of the increasing insolvency of the SFH, generally due to the macroeconomic situation of hyper-inflation during the 1980s, and specifically because of the failure to institute various partial indexation mechanisms for mortgage payments. Accumulated debt amortization is currently US\$23 billion. This is one of the main problems inherited from the SFH's financial insolvency.
- 1.3 The institutional and financial crisis in the housing sector inherited from the 1980s, together with the fact that the current housing deficit of 5.4 million dwellings virtually equals the total number of dwellings that the SFH was able to provide in 30 years (1964-1994), has led to a process of replacing FGTS and SBPE financing with fiscal resources at the state level. This is true for the state of São Paulo, which allocates 1% of its goods and services tax (ICMS) to housing sector expenditures.
- 1.4 The Brazilian housing system needs to overcome two main challenges: (i) splintering, duplication, and a lack of institutional coordination in overall housing policy management both at the federal government level (the Ministry of Planning and Budget through the new Urban Policy Department, the Ministry of the Treasury through the CEF, the Ministry of Labor involved in managing policies of the FGTS, and the Ministry of Social Welfare involved in managing the Social Development Fund (FDS) and the Immediate Housing Plan of Action (PAIH)) as well as in their relationships to the state governments through the state Departments of Housing (SEHABs); and (ii) restrictions on the development of long-term financing, such as the absence of a secondary mortgage market and the incompatibility between

individual, short-term savings mechanisms (30 days) and the need for financing for long-term housing investments (15 years).

- 1.5 In light of this, the federal government has promoted the formation of a Special Commission on National Housing Policy (CEPNH), whose mission is to study and propose measures to meet these challenges. For its part, the Government of the Municipality of São Paulo (PMSP), in the face of serious housing problems in the municipality, has begun to implement the housing policy measures described below (paragraphs 1.16-1.20), among which the amalgamation of the various sources of financing for low-income housing in the Fundo Municipal da Habitação [Municipal Housing Fund] (FMH) stands out. Both the financial situation of the Municipality (see paragraphs 5.11-5.15) and the current context of inflation controlled in the country in the context of the *Plan Real* justify the advisability, timeliness, and general feasibility of this way of proceeding on the part of the PMSP in the search for solutions to its housing problems.

B. The housing problem in the municipality of São Paulo

- 1.6 Out of the 11.6 million residents currently in São Paulo, approximately 7 million are estimated to live in inadequate housing (substandard or dangerous construction and overcrowding), or in dwellings that lack basic services (53% and 47%, respectively). The breakdown of the population that lives in inadequate housing is as follows: favelas (27%), nonconforming subdivisions (14%), and tenement housing (12%). 1/

1. The favelas

- 1.7 Until 25 years ago the existence of favelas in São Paulo was an incipient phenomenon. As the country's main urban and industrial center, the predominant form of housing for low-income families traditionally had been rental units in the central parts of the city. Meanwhile, in outlying areas housing for workers was combined with squatting by poor rural migrants, primarily from the northeast.
- 1.8 Based on recent studies by the Economic Research Foundation (FIPE), the accelerated growth of favelas in São Paulo can be described as a process in which low-income families living in rental units in the downtown area are displaced into clusters of already existing

1/ Tenement houses are collective housing units with three characteristics: low rent, high density, and spaces for collective basic services (i.e. lavatories). In 1991, FIPE estimated that there were approximately 24,000 tenement houses in the municipality of São Paulo, in which approximately 160,000 families live. This housing subsector will be analyzed under this program, including a study in the housing policy development component.

favelas that until then had had a low population density. It is also a phenomenon in which families that used to live on the outskirts of São Paulo were displaced towards favelas by middle-class families looking for lots in those outskirts on which to build homes.

- 1.9 The overtaking of São Paulo by favelas is basically the result of several factors that have made the supply of land and housing fixed, in the face of growing demand and low purchasing power. On the supply side, the favela phenomenon has been the result of: (i) lack of definition of private property rights in the favelas; (ii) high urban development standards that make it too costly to authorize and legalize subdivisions (e.g. minimum lot size of 120 m²); and (iii) the federal rent freeze law in force until 1993. On the demand side, the spread of favelas is the result of declining employment and income for the majority of the population, and an increasing shortage of housing finance resources for low-income people, heightened by the collapse of the SFH. Together these factors made the supply of land and housing in the city even more fixed, made lots and tenement housing relatively more expensive, and ultimately produced the aforementioned displacements of population, which caused more crowding and physical deterioration in the favelas.
- 1.10 The total number of favelas in São Paulo is now 1,544. Their population has grown at a rate of 15% annually between 1987 and 1993, going from 815,000 to approximately two million. Meanwhile the total population of the city grew at a rate of 1.7% annually during that period. Given this growth, the massive intra-urban displacement of low-income families in São Paulo, and the fact that 45% of the heads of household in the favelas originally lived in the tenement housing, the burgeoning of favelas in São Paulo is a more permanent social phenomenon and practically the only form of housing accessible to low-income families in the city. The monthly income of families living in the favelas indicates that approximately 65% of them are below the poverty line (US\$510).
- 1.11 Typically, the favelas are concentrated in good locations in the city, they represent a high physical and environmental risk. The physical consolidation of basic infrastructure in the favelas has partially been the result of a change in policy by the Government of the Municipality of São Paulo (PMSP) to meet the needs of its residents during the first half of the 1980s. During that time, the perception that the favelas of São Paulo were becoming increasingly permanent, led to the replacement of policies of relocating favela dwellers common in the previous decade, with one of improving basic infrastructure. Paradoxically, this relative improvement of services in the favelas has served to attract residents and make them stay longer, which in turn has led to a decline in the quality and coverage of those services.

2. Nonconforming subdivisions

- 1.12 These subdivisions are defined as areas generally urbanized by a real estate developers that are in violation of prescribed urban development standards (i.e. lack of a minimum of public use areas, subdivision into lots smaller than 120 m²) such that the issuance of individual property titles cannot be legally authorized, or areas that were urbanized in spite of being protected or environmentally risky. Nonconforming subdivisions are labeled as such because they do not meet the prescribed standards of urban development required to be part of the legal land and housing market in São Paulo.
- 1.13 There are thus several reasons these nonconforming subdivisions exist: (i) inadequate legislation on urban development standards, which could not be properly met in the case of subdivisions for low-income families as described above; (ii) deficient regulation and control of developers, as well as irregularities in sales contracts, resulting in the issuance of fraudulent titles; and (iii) lack of information on property registry and lack of institutions to protect these families. As is explained further on, the Municipality has eased urban development standards, but it lacks coordinated action to unify the buildings and real estate registers.
- 1.14 The municipality of São Paulo has a total area of 1,500 km², 17% of which is occupied by nonconforming or clandestine subdivisions. Out of that area, approximately 60 km² is in watershed protection areas south of the city, and about 191 km² is not in watershed protection areas. Not until 1995 did the Municipality put into force a new law to legalize subdivisions, including all of the new ones recently created in the southern part of the city. Under this new law, lot size was reduced from 120 m² to 68 m², and the area for public use in this type of undertaking was reduced from 40% to 35% of the total area. This change in standards will help promote greater population density and make the future urban area of São Paulo more compact. In the long term it will reduce the cost of expanding the city. The combination of these new standards together with multi-unit high-rise housing solutions and smaller lot sizes, avoiding the relocation of their residents, could reduce said expansion from 48 km² to 32 km².

C. Municipal housing policy

- 1.15 The lack of clear-cut housing policy guidelines at the federal and state level has led the municipality of São Paulo to take the lead in the housing field. It has prioritized covering the neediest population, while at the same time promoting joint action with the private sector to meet the needs of the middle-income population so that the latter does not begin to compete for the solutions aimed at the poorest income groups. To that end, SEHAB has prepared a

preliminary document laying out the new housing policy of the municipal government.

- 1.16 Said policy is aimed at making access to housing for the low-income population of the municipality a priority, primarily through the following strategies: (i) regulate and implement the Municipal Housing Fund (FMH) (created in June 1994) to bring together all municipal resources targeting housing programs, which will make it possible to optimize the allocation of available resources and ensure that said resources are recycled to finance new operations; (ii) establish a policy of progressive subsidies; (iii) create a single registry of applicants and beneficiaries of housing financing, particularly that which is granted through the FMH; (iv) reform the regulatory framework in force to give incentives for the establishment of low-income subdivisions (1995 law), adjust the land use regulations, and change the legislation governing tenement houses since the elimination of the rent freeze at the federal level in 1993; (v) provide incentives to get private investment involved in housing programs that complement the government's actions and respond to the needs of other income sectors by financing guarantees for private builders; (vi) promote alternative forms of production and access to housing such as: reclaiming and improving living conditions in the favelas and other substandard forms of housing; producing developed lots; providing financing for the procurement of materials; having alternatives such as renting with the option to buy; and (vii) encourage research and technological development of new housing production techniques in order to make housing solutions cheaper and better. 2/

D. Municipal housing programs

- 1.17 In addition to these important policy changes, the municipal government has implemented the following programs for the period from 1993 to 1997: (i) coverage of approximately 55,000 families in favelas through PROCAV, Guarapiranga and PROVER (favela redevelopment program); (ii) legalization of approximately 63,000 lots through the land legalization program; and (iii) upgrades in the infrastructure of around 77,000 substandard dwellings. Overall, these activities will benefit approximately 286,000 families residing in the municipality of São Paulo, which represent 30% of the total number of families living in inadequate housing (1 million families).

2/ Several other instruments accompany this preliminary policy proposal, including: (i) the introduction of a collective letter of credit to purchase new or existing housing; (ii) the creation of a system to market public land; and (iii) design of a strategy to market problem housing developments and recover delinquent portfolio of FGTS resources.

- 1.18 Given the high social and economic cost entailed in a massive relocation of the population living in favelas, and considering the scope of the favela problem and the shortage of usable land that is accessible to São Paulo, such as that occupied by the favelas, SEHAB has designed the PROVER program, whose basic premise is to avoid the relocation of the population. Pursuant to these considerations, PROVER plans to combine *in situ*, on the land currently occupied by the favelas, investments to upgrade infrastructure and provide basic services (urban development), with investments to build high-rise housing solutions (verticalização).
- 1.19 To implement the property legalization program, the municipal government approved a new law in May of 1995 (Law 11,775/95), which will make it possible to ensure ownership rights over developed land, reclaim degraded areas (such as those in watershed areas), and ease the future application of urban development standards in the municipality.

E. Strategy and basis for IDB involvement

1. The experience of the Bank in the urban development and housing sector in Brazil

- 1.20 The Bank's recent experience in financing urban development projects in Brazil includes the following recently approved projects: the Rio de Janeiro urban improvement program (BR-898-OC/BR approved in November 1995) and the Paraná urban development program (BR-917/OC-BR approved February 28, 1996). The objective of the former is to improve the living conditions of the poor population in the urban areas of Rio de Janeiro by upgrading basic infrastructure and increasing the supply of social services to residents of the favelas and nonconforming subdivisions. The latter's objective is to develop and strengthen the municipalities, municipal associations, and state agencies in charge of urban development so as to enhance their efficiency and service coverage. Both loans are in the phase of fulfillment of conditions precedent.
- 1.21 The São Paulo drainage project - stage II (BR-849/OC-BR approved December 1994) provides for canalization works and the building of roads which will require the relocation of people. It includes a component for the upgrading of favelas. This project is already under way and the upgrading of favelas component is being executed by SEHAB itself, based on the same principles and objectives as those proposed for this operation. The impact of these projects will become known as data is gathered through their respective follow-up and evaluation systems.
2. Lessons learned and justification for the Bank's involvement in the urban development and housing sector
- 1.22 The features of the program are consistent with the strategy described above, because they aim to meet the basic needs and

improve the quality of life of low-income groups requiring priority attention in São Paulo. Likewise, the program takes into consideration and exceeds the previous experiences the Bank has had in financing housing by improving neighborhoods, which constitutes an efficient alternative to financing serviced lots for three basic reasons: (i) it does not involve relocating the beneficiary population; (ii) it maximizes the benefits of the sunk costs of on-site infrastructure; and (iii) it promotes the community ties that already exist. A review of these experiences and emphasis placed on a sectoral view of the problems of housing and urban development gave rise to the new Bank's financing policy for housing (OP-751) in March 1995.

- 1.23 According to this new policy, and with a view to helping overcome the current limitations on better operation of the São Paulo housing market, the program is consistent with said strategy in that it: (i) allows for the legalization, urban development and formal integration of vast areas of illegally occupied land that are physically degraded and pose high environmental risks; (ii) helps legalize the illegal subdivisions sector of the market, makes supply more flexible, and promotes more efficient use of the urban land in São Paulo; and (iii) promotes the streamlining and transparency of resource allocation through the self-targeting system.
- 1.24 Given the serious housing situation in the municipality and the lack of a comprehensive national policy framework for urban development and housing in Brazil, the program may be seen as an experience in decentralization emerging from the Municipality of São Paulo. Its appositeness is justified to the extent that it takes advantage at the municipal level of the opportunity provided by the elimination of the rent freeze and the flexibility applied to reducing urban planning standards in national legislation. In this vein, the impact of broader application of the program can be understood through the strategies and actions described below:

STRATEGY	ACTION
Definition of property rights	Recognize rights acquired by illegal occupation of publicly held land, and legalize property in new operations.
Streamline the allocation of housing solutions	Use the self-targeting mechanism to allocate housing solutions in a transparent way, in keeping with the payment capacity of each family.
Streamline the provision of basic infrastructure	Apply total cost recovery when introducing basic infrastructure as subdivisions become legalized.
Institute a new framework of urban development standards	Institute new standards with smaller lot sizes (120 m ² to 68 m ²) and reduce the legal requirements of remaining areas for public use (35%), thus reducing the costs of such operations and of providing solutions for low-income families.
Promote a new institutional framework for the housing sector	Finance the first steps toward the institutional reform of SEHAB.

4. The experience of other multilateral organizations

- 1.25 In 1994, the World Bank approved a loan for US\$260 million to partially finance the Guarapiranga Basin comprehensive recovery and preservation program, to be carried out jointly with the State of São Paulo and the Municipality of São Paulo. The total cost of the project is US\$553 million. In order to attain its objectives, has more than in addition to environmental conservation and recovery works, the program includes an urban rehabilitation component aimed at mitigating the impact of disorganized urban growth in the area, for which favela development works will be done. This component is being executed by SEHAB, primarily through neighborhood improvements work (water, sewers, electricity, storm drainage, roads). However, since this is an environmental protection zone, specifically for the protection of watersheds, some families will have to be relocated. For this reason SEHAB plans to build around 600 housing units in the style of those offered by PROVER. The program expects to cover around 38 favelas and 30 irregular subdivisions, for the benefit of around 22,000 families. The period of execution of the program is five years. The work of the first phase is virtually concluded, which benefitted seven favelas housing 1,620 families.

II. OBJECTIVES AND DESCRIPTION OF THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to improve the social and environmental living conditions of the residents of low-income subdivisions and their surrounding areas in the municipality of São Paulo. The specific objectives of the program tie in with the nature of its two main components: upgrading of favelas and legalization of nonconforming subdivisions.
- 2.2 The specific objective of the upgrading of favelas component is to provide legal housing to approximately 11,000 low-income families residing in 20 favelas in the municipality of São Paulo. These actions are framed within the following basic premise: respect for established ties to the community and to the area, avoiding the relocation of families as much as possible. Within this overall objective are the following specific ones:
 - (i) protect the physical integrity of the residents by lowering the risk of accidents (fire, flooding, landslides), or the risk of contracting communicable and infectious diseases;
 - (ii) provide the beneficiary population with access to basic sanitation and public services, integrating each favela into the fabric of city life;
 - (iii) relieve overcrowding, providing a better quality of life through planning and instilling a sense of community in neighborhoods;
 - (iv) provide recognition of land tenure and ownership of a home through a legal instrument;
 - (v) help residents of these communities become full members of their urban society, instilling in them a renewed sense of belonging and civic involvement.
- 2.3 The specific objective of the nonconforming subdivision legalization component is to enhance the urban planning and environmental conditions of the city by recovering approximately 21,000 lots, thus making it possible to regularize the use of land and property, which would benefit around 100,000 inhabitants. Within this overall objective are the following specific ones:
 - (i) For the municipality: insert the legalized areas under city planning and land-use requirements; reduce risks of erosion, flooding, and landslides; lower the risk of contracting infectious and communicable diseases;

provide public services; boost tax revenues by incorporating the legalized real estate into the land registry; penalizing non-complying developers.

- (ii) For the owner of the lot: have a dwelling on an official public thoroughfare, with an adequate infrastructure and the resulting improvements in quality of life; increase his wealth by having a legal instrument attesting to legal tenure of land and the ownership of his residence.

- 2.4 These objectives, along with their indicators of execution and verification methods, are presented in the tables describing the logical framework for each of the components of the program (see Annex II-1).

B. Description

- 2.5 To achieve the above objectives, the program calls for investments on three fronts: (i) upgrading of favelas; (ii) legalization of subdivisions; and (iii) development of an institutional framework and housing policies.

1. Upgrading of favelas (US\$177.8 million)

- 2.6 This component seeks to install and upgrade city services and housing in approximately 30 favelas. The favela improvement projects will consist of a mixture of two kinds of housing solutions for which the residents of the favelas will have the right of first refusal: (i) conventional serviced sites measuring 71 m² and a core housing unit measuring 23 m²; and (ii) apartments in multi-unit buildings five to eight stories high, with one-, two-, and three-bedroom apartments. Plans include building approximately 9,000 apartments and 2,000 lots with core housing units, which will comply with the existing zoning and land-use requirements. These dwellings will have varying market values, in accordance with the different income levels of the beneficiaries. The sales mechanisms are described in chapter III.
- 2.7 In all, the designs will encompass a broad range of public works, services, and basic facilities, including: water and sewer lines; road infrastructure (including sidewalks); drainage works; trash disposal systems; street lighting; slope stabilization; reforestation; parks and sports areas; parking areas; and building of apartment buildings and core housing units.

2. Legalization of nonconforming subdivisions (US\$41.3 million)

- 2.8 The goal of this component is to bring approximately 21,000 lots in clandestine and illegal subdivisions into line with city-planning and legal requirements. Based on recently passed legislation (Municipal Law 11,775/95), which for the first time defines a

mechanism by which nonconforming subdivisions can be regularized, the projects under this component will finance a broad range of works, administrative expenditures, and technical assistance needed to legalize these subdivisions according to municipal and federal law on urban land division. Although these investments may vary considerably from project to project, the investment needs have been estimated to average approximately US\$3,300 per lot, including topographical surveys, drainage works, paving sanitary sewers, potable water supply, earthwork, street lighting, and ancillary works. The Municipality will recover the cost of these investments through the mechanisms described in chapter III.

3. Institutional strengthening and development of housing policies
(US\$2.4 million)

a. Institutional strengthening (US\$1.9 million)

- 2.9 Institutional strengthening of SEHAB, particularly its two units directly related to execution of the program: the Low-income Housing Authority (HABI) and the Property and Zoning Compliance Department (RESOLO). The objective of this institutional strengthening is to enable these units to develop and maintain the technical and operational capacity required by the program and for future operations.
- 2.10 The program will finance studies on the organizational restructuring of these units so as to bring them in line with a matrix project management approach. In the case of HABI, the program will finance three kinds of activities that are mutually complementary: (i) hiring of specialized management services to conduct an organizational and functional diagnosis of HABI, evaluate its performance, and adjust its organizational structures (matrix) designed for the management of PROVER, with a view to a later overall restructuring of HABI; (ii) development of an integrated information system for the planning, programming, and control of Social Action Plans; (iii) joint training of professionals from HABI's integrated teams to ensure that the technical knowledge required to execute a program of such breadth and complexity is up to date, and to ensure a comprehensive approach to the social aspects, which are fundamental to the success of the program. The cost of this institutional strengthening is estimated to be US\$1.2 million and is described in Annex II-3.
- 2.11 In the case of RESOLO, the program will also finance: (i) an analysis of the organizational structure of RESOLO by hiring a specialized firm to conduct a diagnostic study of its performance and propose measures to readjust its current structure; (ii) training of ground-based teams against the invasion of new areas: creation of three monitoring teams to work with the aerial surveillance to detect incipient squatting, preventing such situations from developing and becoming irreversible;

(iii) development of human resources; and (iv) processing and computerization. The cost of this RESOLO strengthening plan will be approximately US\$700,000.

b. Housing policies (US\$500.000)

- 2.12 To complement its activities in the low-income housing sector, the program will finance the following sectoral studies: (i) a diagnosis of the local rental housing market for the low-income population, with special attention paid to the tenements, and a plan of action; and (ii) identification of obstacles to the reliable supply of public and private new housing for low-income families. The preparations for these studies will include an assessment of the impact of actions being taken by the municipality in connection with its housing policy.

4. Engineering and administration and recurrent costs (US\$27.7 million)

- 2.13 In the administration and engineering category, the following costs are included: (i) designs: topographical and geotechnical services and preparation of basic and detailed engineering designs; (ii) technical-managerial support: technical and administrative support services for the program's coordination unit and for HABI and RESOLO to be carried out by management firms; and (iii) supervision: technical services to monitor and inspect execution of designs to be developed by specialized companies.
- 2.14 The following costs are in the associated costs category: (i) Photogrammetry: digital restitution on a scale of 1:5,000 to update the nonconforming subdivisions in the land occupation chart in an area of approximately 100 km²; (ii) legalization and registry of property: includes expenditures for technical legal support by specialized firms to coordinate and activate the legal provisions to legalize buildings in the favelas and nonconforming subdivisions; (iii) monitoring and social action: includes activities in the system to monitor and evaluate the impact of the program (paragraph 3.33), the Social Action Plan - consultation, communication, and community participation (paragraph 3.19); and (iv) technical assistance: environmental studies for the designs and other specialized technical services.

C. Cost and financing

- 2.15 The management companies hired by SEHAB to prepare several of the program's designs calculated the costs of the other components of the program. The project team found the estimated costs to be reasonable, and they are in line with those of similar works projects done by SEHAB.
- 2.16 Program funding will come from a Bank loan in the amount of US\$150 million drawn on the ordinary capital, and a local

contribution for the equivalent of US\$100 million. The local counterpart will come entirely from the municipality of São Paulo's own resources.

- 2.17 The total cost of the program is estimated to be US\$250 million equivalent, broken down by sources of financing as follows:

GENERAL FINANCING TABLE (In thousands of U.S. dollars)					
CATEGORIES		SOURCE OF FINANCING			
		IDB	LOCAL	TOTAL	% TOTAL
1.	Engineering and administration	1,030	11,240	12,270	4.9
	1.1. Designs (pre-investment studies)	-	4,330	4,330	1.7
	1.2. Managerial support	-	2,420	2,420	1.0
	1.3. Supervision	1,030	4,490	5,520	2.2
2.	Direct costs	142,460	76,670	219,130	87.6
	2.1. Favelas	101,160	76,670	177,830	71.1
	2.2 Nonconforming subdivisions	41,300	-	41,300	16.5
3.	Associated costs	5,010	10,390	15,400	6.2
	3.1. Photogrammetry: Digital restitution	1,400	-	1,400	0.6
	3.2. Legalization and registry of property	-	2,550	2,550	1.0
	3.3. Monitoring, social action, and environmental technical assistance	2,000	7,050	9,050	3.6
	3.4. Institutional strengthening and studies	1,610	790	2,400	1.0
4.	Financial costs	1,500	1,700	3,200	1.3
	4.1. Credit fee	-	1,700	1,700	0.7
	4.2. Inspection and supervision	1,500	-	1,500	0.6
TOTAL		150,000	100,000	250,000	100.0
Percentage of total		60.0	40.0	100.0	

- 2.18 It is proposed that the prospective Bank loan conform to the following terms:

CONDITIONS OF FINANCING

Amount of loan	US\$150,000,000
Amortization term	25 years
Grace period	4 years
Disbursement period	4 years
Term for start of works	3 years
Interest rate	variable
Inspection and supervision	1%
Credit fee	0.75% of undisbursed amount

III. PROGRAM EXECUTION

A. Structure of the coordination unit of the program

- 3.1 SEHAB will be the program's executing agency, performing financial, technical, and interinstitutional coordination through the Office of the Secretary, which will act as the coordination unit. To perform this function, the Office of the Secretary will form a support group (SG) comprised of specialized technical staff and led by a general coordinator. The main role of the SG will be to plan, coordinate, and monitor the technical and financial execution of the program, as well as compliance with the commitments undertaken by the Municipality in the loan contract.
- 3.2 The coordination unit will receive support from the organizational infrastructure of SEHAB, primarily the following entities: the Low-Income Housing Authority (HABI), responsible for the development and implementation of housing projects and programs aimed at residents of substandard housing. One of its main functions is all facets of social action, in addition to implementation and monitoring of works; São Paulo Metropolitan Housing Company (COHAB), responsible for processing, approving, and managing loans emanating from the sale of apartments in the program; Property and Zoning Compliance Department (RESOLO), responsible for all activities related to land-title legalization of the nonconforming subdivisions. In turn, the executing unit and its internal support bodies will avail themselves of the services of specialized private companies that will provide technical support in the construction, social, managerial, and administrative areas.

B. Implementation coordination

- 3.3 SEHAB, through the coordination unit, will take the steps necessary to manage program resources and coordinate actions with the state and municipal agencies participating indirectly in program implementation (see paragraph 4.2). The HABI and RESOLO units will take the necessary coordination steps to ensure proper execution of the projects and adequate maintenance and operation of the urban infrastructure works. Throughout the period of execution of the program, the coordination unit will have a system of evaluation and follow-up with inputs from all the units involved. This will make it possible to monitor the physical and financial progress of each operation and of the program as a whole and attainment of the established goals.

C. Operational framework

- 3.4 Program execution will be based on the Operating Regulations accepted by the borrower and by the Bank. Entry into force of

these Regulations will be a condition precedent to the first disbursement. The two investment components of the program have their own operational guidelines, which are presented below.

1. Upgrading of favelas

a. Stages within each favela

3.5 Given the density of the favelas and the need for space within each of them in the works area, the process of urban development and construction in each of the favelas in the program is done in stages. The following stages will be executed in sequence for each component that includes the construction of buildings. Obviously, a fundamental aspect of this process will be consultation with community leaders and groups that will participate actively in the design, execution, and monitoring of the works (see Social Action Plan, Annex III-6).

- (i) selection of favelas based on the criteria defined for the program;
- (ii) information activities for the community on the content and scope of the program to facilitate initial intervention;
- (iii) hiring of specialized firms to prepare the basic designs;
- (iv) diagnostic study of the current situation by HABI and formulation of an intervention plan;
- (v) consultation with the community; activities for self-targeting by the beneficiaries;
- (vi) environmental analysis of the project by the SVMA;
- (vii) SEHAB approval of the community intervention and consultation plans;
- (viii) submission of basic designs and bid documents for IDB approval; authorization by the IDB to award contracts through international bidding;
- (ix) contracting and start of works;
- (x) construction of provisional housing (to be reused later);
- (xi) use of the media, as appropriate for the community profile and type(s) of product(s) offered, to enable its members to understand the progress of the works;

- (xii) support for the organization of leaders and the population of the different sectors of the favela to facilitate their participation in the negotiation of solutions and in the process of improving their neighborhood;
- (xiii) partial removal of the inhabitants of the area to be developed and their transfer to the provisional housing;
- (xiv) installation of urban infrastructure;
- (xv) construction of apartment buildings and development of lots with core housing units;
- (xvi) identification and legal training of the leaders who will assume responsibility for the condominium organization in the case of the apartments, and for the neighborhood organization in the case of housing subdivisions or lots with services;
- (xvii) transfer of families to the apartments, having signed agreements on the terms of occupancy and of use of permits subject to payments, while the legalization is processed for the lots and the apartments, and the financing contract is prepared;
- (xviii) land-title legalization and preparation of the deed; monitoring of post-occupation maintenance of the apartments and/or improved neighborhood serviced lots, as well as the living conditions of the beneficiary population.

b. Selection of families in the program

- 3.6 The program will cover all residents, with priority given to families, provided that the beneficiaries comply with the following basic prerequisites: they have been registered as residents; they have not sold their dwellings since the land register activities or since the area was "frozen". All registered residents will be entitled to benefit from the program, unless: they own any real estate in the metropolitan region of São Paulo; or, they have benefitted from other government housing programs in the metropolitan region and have transferred title to the housing unit during the term of financing without clearance from the agency responsible for the program in question. Such circumstances will be reviewed and decided on a case-by-case basis.

c. General selection criteria

- 3.7 The favelas must meet the following general eligibility criteria:
(i) not located in an environmental protection area;

(ii) consolidated occupancy; (iii) not situated on a sanitary landfill; (iv) able to be integrated into the surrounding areas; (v) at great risk for fire, flooding, landslides, environmental pollution, and public safety problems; (vi) located in areas owned by the Municipality of São Paulo; (vii) high population density and a minimum of 150 families; and (viii) not impeding any planned public works project.

d. Social Action Plan

3.8 Pursuant to recommendations by the Project Team, HABI adjusted its proposed Social Action Plan, incorporating self-targeting mechanisms, reinforcing instruments for consulting and communicating with the community, and emphasizing the participation of the population throughout the program execution period.

3.9 The Social Action Plan, which the executing agency contractually undertakes to use for execution of the program, is divided into the following six social action and monitoring modules: (i) preliminary activity (prepare the population to discuss the program and the social changes it will produce; perform the cadastral survey and identify community leaders); (ii) perform the comprehensive diagnostic study; (iii) discuss and define the basic design with the communities; (iv) monitor the execution of physical works; (v) legalize property ownership; and (vi) post-occupation module (monitor the organization of condominium associations and maintenance). It should be noted that these modules, although presented sequentially, are worked on and linked together starting with the preliminary phase (see Annex III-6).

3.10 To make implementation of the Social Action Plan possible, HABI decided to significantly reinforce its permanent staff by outsourcing social services. Essentially, the operational field work will be done by professionals hired temporarily by a consulting firm, according to the demand of the work sites. The work will be coordinated by teams of HABI professionals (social workers, engineers, and attorneys) in close cooperation with the management group of the consulting firm.

e. Criteria for setting priorities

3.11 Once the favelas have been selected according to the general criteria laid out above, priorities must be established among them according to the following criteria, to which the respective indicator, degree of intensity, and weighting factors will be applied: (i) largest number of dwellings in areas posing risks; (ii) shortest distance to basic infrastructure systems (water and sewer lines and power supply), which will reduce investment costs; (iii) greatest shortage of infrastructure, i.e., total or partial absence of water supply, sewage collection/disposal, power supply and trash collection; (iv) highest density, measured in terms of number of families in area occupied by the favela; (v) prior

commitment of the public authorities to the local population; and (vi) site availability, with a view to proceeding to the legal registration of the properties within the shortest possible time.

f. Technical implementation criteria

- 3.12 The technical criteria that the works must meet are as follows: (i) apartment size will be 33.3 m², 41.4 m², and 56.0 m² for one-, two-, and three-bedroom dwellings, respectively. The apartments will be in walk-up buildings five to eight stories high, depending on the population density of the favelas and topography of the site; (ii) lot size will be 71 m² with a core housing unit measuring 23 m², expandable to 43 m²; (iii) the cost of the apartments must not exceed US\$16,500, US\$19,700, or US\$25,200 for one-, two-, and three-bedroom units, respectively (these costs include a 10% provision for possible escalation); (iv) the cost of lots with core housing units must not exceed US\$12,200; (v) the designs must contain measures for the proper operation and maintenance of works and systems; and (vi) the number of families to be relocated must be minimized, giving preference to relocation within each favela or cluster of favelas.
- 3.13 In addition, the designs should meet the sectoral technical criteria in force for implementation of works and delivery of such services as potable water, sewer lines, roadways, storm drainage, trash collection, environmental protection, public health, education, and sports and recreation.

g. Mechanism for the sale of housing solutions

(i) Determination of compensation

- 3.14 Since the program will eliminate the existing dwellings in the favelas, each affected family will be compensated for an amount equivalent to the replacement value of its current shacks. This amount will be the average selling price of shacks observed in SEHAB's socioeconomic survey, which is US\$7,000. Said amount may be applied as a down payment on an apartment or a lot with a core housing unit. If a family is not interested in an apartment or lot with a core housing unit, said amount may be paid in cash and the family will have to relocate outside the areas to be developed by the program.

(ii) Allocation of financing by type of housing unit

- 3.15 Since the above-mentioned compensation will be used for the down payment on the apartments, determining its amount made it possible to calculate the credit needs of the families by type of housing unit. Credit need is defined as the difference between the market value of the housing unit and the compensation or replacement value of the current dwelling. Therefore, taking into account the beneficiary families' ability to pay, the families will not need

subsidies to finance their new housing units. The following table summarizes a graduated credit scale for the program by type of housing unit.

Table III.1. Types of housing solutions and market conditions (US\$)

Type of unit	Market value (a)	Down payment ^{1/} (b)	Loan ^{2/} (a-b)	Monthly payment ^{3/}	Minimum monthly income	Percentage of families that can pay
Lot w/ core housing unit	12,500	7,000	5,500	39.6	172	94%
1-bedroom apartment	18,000	7,000	11,000	76.6	333	77%
2-bedroom apartment	22,500	7,000	15,500	105.1	457	70%
3-bedroom apartment	30,000	7,000	23,000	155.1	674	40%

^{1/} Compensation equivalent to replacement cost of a dwelling in the favela

^{2/} Loan at 6% real interest and 25 years

^{3/} Assuming that a payment can be no more than 23% of monthly wages (including insurance and other administrative costs)

- 3.16 Loans will be granted at a fixed, real annual interest rate of 6%, with an amortization period of 25 years. The insurance premium to cover losses due to disability or death will be 5% of the total principal and interest payment.

h. The land-title and legalization process

- 3.17 The beneficiaries of apartments and lots with core housing units will sign a permit with the Municipality for use of the dwellings while a municipal law is being processed and approved to authorize the de-designation of the area where the operation is located, which would enable it to be legalized. The recording of titles for the apartments and lots with core housing units in each favela will be legalized on a case-by-case basis, contingent upon said approvals. The following procedures are estimated to take an average of seven months: SEHAB receives the executive design, the municipal council approves the de-designation of the area and grants the sales permit, properties are recorded in the Property Registry, and the housing units are finally sold to the beneficiaries. Payments made by the beneficiaries during the usage-permit period will be deducted from the debt balance of the financing contract. Transfer or sale of the apartments under any circumstance will be prohibited during the first 36 months of occupancy of the building, so that the favela dweller becomes accustomed to his or her new environment and will not want to return to substandard housing for immediate monetary gain, thereby losing any additional appreciation that may occur during this period.

2. Legalization of subdivisions

a. Stages of implementation

(i) Identification of subdivision and its stage of consolidation

- 3.18 Once a subdivision is found to be nonconforming, through a technical visit or because it is reported, RESOLO proceeds to conduct the technical survey.

(ii) Identification of subdivisions and notification

- 3.19 The technical analysis by RESOLO leads to a diagnosis defining the pertinent provisions to legalize if the features of the subdivision are reversible and the land can be recovered. If so, notice is sent to the developer so that within a set time period he can submit a recovery plan, physical and financial timetable for the works, and guarantees for their execution. RESOLO issues a license for the execution of works and services, monitoring and overseeing them until they are finished. Once these works are accepted, RESOLO proceeds to legalize the land. Once the subdivision is legalized, RESOLO works lot by lot, serving as intermediary so that the owners can record their real estate. In this case the program resources would not be used because the developer would be defraying the costs.
- 3.20 If there is no response by the developer within the established time period, RESOLO may take steps to execute the necessary works. Once it has documentation from the owners of the lots, legal proceedings are begun through which monthly payments made by the owners to the developer are deposited in a special account. Once the special account is opened, RESOLO issues individual Judicial Deposit Cards for each of the lot owners. Then RESOLO contracts out the preparation of detailed designs for the works and services to be performed, monitoring and supervising them until final acceptance. It is estimated that 35% of financing for the works will come from the judicial deposits, and the remaining 65% will come from SEHAB use of resources of the proposed loan while legal proceedings are under way to collect from the developers. RESOLO expects to recover approximately 25% of the money collected through legal proceedings from the developers in around five years.

b. Selection criteria

- 3.21 A total of 308 nonconforming subdivisions has been detected, and they are estimated to include around 110,000 individual lots. The selection criteria to be followed for the program subdivisions are: (i) the subdivision was developed since 1972; (ii) it is not located in an environmental protection area; (iii) at least 70% of the lots contain permanent structures; (iv) all possible legal remedies to get the developer to meet the technical demands have

been exhausted; (v) the title deed issued to the developer has been duly recorded in the Property Registry; (vi) it is not situated on a sanitary landfill, an area subject to flooding, or land whose geological features render it unsuitable for the construction of buildings.

c. Criteria for setting priorities

- 3.22 The priorities for including subdivisions in the program will be set according to the following criteria, which will have their respective indicators and weighting factors: (i) occupancy ratio; (ii) shortest distance to basic infrastructure systems, i.e. water and sewer lines and power supply; (iii) greatest shortage of infrastructure, i.e. total or partial absence of public services; (iv) at least 35% of area available for public use, i.e. streets, parks, social facilities, etc.; and (v) average area of the lots between 68 m² and 125 m².

d. Technical implementation criteria

- 3.23 The subdivisions to be legalized with program resources must meet the following technical criteria: (i) the investment cost necessary to legalize must be no more than US\$3,300 per lot throughout program execution; (ii) designs of the works must follow the standards established by the competent specialized agencies for subdivision designs, or their specific recommendations for minimum coverage to allow legalization; (iii) the designs must include measures for proper operation and maintenance of the systems and works financed by the program; and (iv) the de-activation of lot areas required to attain the minimum area needed for roads, parks, urban facilities, etc., must be done before the execution of the works can begin.

e. Information, communication, and follow-up mechanisms

- 3.24 RESOLO will use its official publicity mechanisms to inform the owners of the lots of the need and importance of preparing formal cadastral documentation, and how this process will provide them greater guarantees that their land tenure will be recognized and legalized in the future. With the judicial deposit device, it will be essential to keep track of the lot owners on an individual basis, broken down by subdivision. The program intends to install a computer system for this, which would permit tracking of both budget execution and the application of resources from the Bank financing.

D. Environmental quality control system

- 3.25 SEHAB has conducted a detailed environmental analysis of the program, which includes assessment of the potential environmental impact during execution of the works and later by the new residents. Measures to eliminate or mitigate these impacts have

been established. There is an Environmental Quality Control System (SCQA), which was conceived to identify the positive and negative environmental impact of the program as a whole and of each specific component, both for the upgrading of favelas and for the legalization of lots. The SCQA is based on the premise that environmental analysis of each project will be the responsibility of the Municipal Department of Parks and the Environment (SVMA). The SVMA will analyze each project and give its opinion, and request that conditions be met, if necessary, before giving its approval. The SVMA may exercise its oversight authority at any time. The SVMA's participation is guaranteed through two inter-departmental commissions established with the municipal government.

E. Procurement procedures and timetable

- 3.26 Tender calls have been divided into favela upgrading (buildings and developed lots with core housing units) and development of nonconforming subdivisions, so as to enhance the efficiency of program execution. Bank procedures will be followed for tenders and for the contracting of goods and services. In light of the kinds of works involved and the capacity of the construction companies in the country, the project team recommends that international competitive bidding be conducted for works over a cost of US\$5 million and for procurement of goods and services over the cost of US\$350,000. It is estimated that most of the works will be subject to international competitive bidding, since they have been grouped into batches of seven favelas and five subdivisions, whose sums would exceed said limit. Annex III-8 includes the summary of tender calls for the favelas and for the nonconforming subdivisions.

F. Disbursement schedule

- 3.27 A period of three years is proposed for physical initiation of the works and the term for disbursement is four years.
- 3.28 Based on this planning, the following disbursement schedule (in thousands of U.S. dollars) is proposed:

SOURCE	1996	1997	1998	1999	2000	TOTAL
Bank	3,785	34,635	83,485	24,820	3,275	150,000
Local Contribution	45,295	16,530	34,600	3,000	575	100,000
TOTAL	49,080	51,165	118,085	27,820	3,850	250,000
% TOTAL	19.63	20.47	47.23	11.13	1.54	100.00

G. Recognition of expenses

- 3.29 With regard to recognition of expenses, the project team reviewed the documentation on five competitive bids for the construction of works to upgrade favelas that would be eligible according to the selection criteria and priorities established for the program. The tendering was conducted according to the procedures established in national law, and awards were made based on an analysis of the proposals presented.
- 3.30 The tendering was done in 1995 and the contracts were signed in July of that year. Payments to the successful bidders began in August 1995. As of April 1996, the municipal government had made payments totalling approximately US\$45 million, which may be submitted to the Bank to be recognized as prior expenditures under the category of direct costs (construction of works). The corresponding supporting documentation will be submitted to the Bank for consideration, for the expenditures to be recognized as part of the local counterpart.

H. Monitoring and evaluation system

- 3.31 In view of the innovative nature of the program, which seeks to build high-rise multi-unit dwellings for low-income families, the program plans to establish a system to monitor and evaluate its impact so as to see how this kind of housing solution works. This system will include a technical managerial audit to be performed annually by an outside source, which would cover such indicators as: level of satisfaction of the residents, increased market value of the apartments and single-family homes, incidence of resale of the dwellings, volume and rate of additions, rate of arrearage in paying back home and condominium loans, physical condition of the common areas (particularly those of the multi-unit high-rises), progress made in the legalization of property and titles, and level of community and condominium organization. Said monitoring and evaluation system agreed upon with the Bank, along with the six-month progress reports, will be the basis for annual reviews on the progress and execution of the program, which will be conducted jointly by the borrower and the Bank.
- 3.32 Also, agreement was reached with SEHAB that the program evaluation process would include two impact assessments - an interim assessment and a final assessment - following the methodology and the guidelines to be agreed upon with the Bank. The findings of the first assessment are to be presented to the Bank 24 months after the effective date of the loan contract. The findings of the second assessment are to be presented prior to the final disbursement. In addition, it was agreed with SEHAB that during the three years after the final disbursement, it would present to the Bank each year the information produced by the impact assessment and monitoring system.

I. External audit

- 3.33 SEHAB will hire an independent firm, acceptable to the Bank, to conduct an annual external audit of the program's performance.

J. Stage of preparation of the sample

- 3.34 In order to conduct the technical feasibility analysis of the program to be financed by the Bank, SEHAB submitted to the Bank an indicative sample of four eligible designs for two favela upgrading projects with high-rise multifamily dwellings and two projects for the legalization of subdivisions. This sample represents 10% of the value of the program and is considered sufficient to have a clear idea of the costs and to quickly begin the program with the IDB.
- 3.35 In addition, available technical and budgetary data on the Autódromo project being implemented by SEHAB were reviewed, which consists of a favela upgrading solution that involves settling families on 71 m² lots and includes construction of a 23-m² core housing unit (bedroom, bathroom, kitchen) made of concrete blocks. The lot and core housing unit contain the required infrastructure.
- 3.36 The designs will be prepared following the standards and specifications of the regulatory agencies of each sector, thus guaranteeing the functioning and stability of the works, paving the way for their operation and maintenance, and taking into account the site on which the design will be implemented.
- 3.37 SEHAB is completing the designs, giving priority to those selected for 1996, so as to be ready to issue the respective tender call. To this end, it was agreed that before awarding each works contract, SEHAB must have the respective supervisory team in place, either from its own staff or through outsourcing. In addition, it was agreed that SEHAB must have the detailed designs before ordering the contractors to start work.
- 3.38 For the purposes of the design and execution of PROVER, the municipal government has a physical and cadastral database which covers 243 favelas. It contains information on housing units (physical structure and suitability for habitation) and on the demographic and socioeconomic characteristics of the people living in the favelas and their aspirations.
- 3.39 So far, implementation of PROVER includes three phases. Phase I is now under way with budgetary resources from the Municipality and participation of the federal government through loans from the Federal Savings Bank (CEF) in the amount of R\$75 million. Under this phase work began in July 1994 to upgrade 12 favelas and should be completed by December 1996. Some 3,000 families will benefit. The investment is estimated at around US\$37 million. Phase II works began in September 1995 and should conclude by the first

quarter of 1997. It provides for upgrading 12 clusters of favelas with financing from the MGC's own resources and from the CEF for approximately US\$100 million, and will benefit some 5,000 families. Phase III, which includes around 30 favelas, is at the state of execution of basic designs, tenders, and execution of works. This phase will be financed with resources from the MGC and possible Bank financing.

IV. INSTITUTIONAL ANALYSIS

A. Institutional framework for implementation of the program

- 4.1 The borrower will be the Government of the Municipality of São Paulo (PMSP), which will also furnish counterpart funding for the program. The loan will be guaranteed by the federal government, but the guarantee will cover only repayment of the loan (including interest and fees), not the local contribution or any obligation that is not legally incumbent upon the federal government. The executing agency will be the Department of Housing and Urban Development (SEHAB), which will be responsible for general coordination of the program, with command centralized through the Office of the Secretary. SEHAB will control flows of funds from the municipal government and from local and external borrowings.
- 4.2 Other municipal departments will perform construction work and specialized services under the terms of interagency agreements and commissions under the HAB program, by virtue of which the redeveloped urban enclaves can be brought formally into the city. Municipal decrees have been issued to expedite the coordination between SEHAB and the other departments that will be coexecuting agencies. SEHAB also will conclude agreements with state agencies taking part in the program, such as Companhia de Saneamento Básico do Estado de São Paulo [São Paulo State Basic Sanitation Company] (SABESP) and Eletricidade de São Paulo S.A. (ELETROPAULO).

B. Executing agency: Department of Housing and Urban Development

- 4.3 São Paulo's Department of Housing and Urban Development (SEHAB) is responsible for implementing the Municipality's housing and urban development policy, monitoring land use and occupation, and preserving the urban environment. It discharges these responsibilities through a number of different departments. The main functions and responsibilities of the SEHAB units that will be directly involved in this program are summarized below.

1. Low-Income Housing Authority

- 4.4 The city's Low-Income Housing Authority (HABI) develops and carries out housing programs and projects targeted to those living in substandard housing. HABI's main functions for the proposed program will be: (i) to survey families living in the targeted favelas and coordinate socioeconomic interviews and research; (ii) to develop and set in operation arrangements and channels for communication with families living in these favelas; (iii) to provide support to displaced families throughout the resettlement process; (iv) to review cases of individuals or families whose particular or exceptional circumstances would warrant some different approach; (v) to develop education programs to help

residents of the former slum districts adapt to their new social conditions and new housing environment; (vi) to coordinate activities with the other municipal departments; (vii) to provide advice and technical support to families to expedite the process of legalizing ownership of lots and housing units; and (viii) to monitor families after they have occupied their housing units and assess their level of satisfaction.

- 4.5 To be able to handle the greater demands that will ensue from the operation of PROVER generally, and pursuant to recommendations of the project team, HABI reorganized its structure and operations, adopting a matrix project management approach. To that end, it has restructured its technical support, legal, and project coordination divisions, which will assist the different teams in charge of activities in each phase of the proposed program and the technical and social-area coordinators who will be directly responsible for the different phases. Outside support will be provided for this matrix arrangement in areas such as construction project management and supervision, project development and contracting, support for social-action initiatives and their monitoring, and specialized studies on geotechnics, structural calculations, environmental issues, and others.
- 4.6 To help HABI perform these functions, a strengthening component has been included in the program (see chapter II of this proposal). A consulting firm to produce the analysis is to have been engaged within six months after the effective date of the loan contract, the consultants' recommendations are to be implemented within 24 months after the effective date of the loan contract.

2. Companhia Metropolitana de Habitação de São Paulo

- 4.7 The São Paulo Metropolitan Housing Company (COHAB) has the following functions and responsibilities as the agency in charge of operating the municipal housing system: implement municipal housing policies in accordance with SEHAB targets and priorities; carry out programs and projects in pursuit of municipal housing policies; make official arrangements for the allocation of Municipal Housing Fund (FMH) resources; oversee FMH accounts; and see to the implementation of operations approved by SEHAB, with responsibility for the entire process of devising housing solutions, overseeing their construction, and the sale of completed units.
- 4.8 COHAB's principal functions under the program proposed herein will be to (i) arrange for, process, and administer loans for the purchase of apartments; (ii) prepare lists of monthly payments collected and forward the payments via the municipal banking system; (iii) monitor the contracts of each beneficiary, to keep past-due portfolios at a reasonable level; and (iv) arrange for and administer home insurance policies for beneficiaries.

3. Fundo Municipal da Habitação

- 4.9 A Municipal Housing Fund (FMH) is to be created as part of the Municipality's housing policy. Municipal funding earmarked for municipal housing programs, both for the construction and sale of housing units and for nonrecoverable outlays (subsidy policy, grants for works projects), will be concentrated in this agency. The Fund will be overseen by a board whose membership will be drawn from the municipal government, the beneficiaries, and agencies working with housing programs. The board's duties will be, *inter alia*, to set guidelines and decide on programs for allocation of the Fund's resources, monitor and assess the social benefits of approved projects and programs, and approve the Fund's annual budget. The Fund is expected to begin operating in the third quarter of 1996, as soon as its board has been confirmed and inducted and the board has approved the Fund's by-laws.
- 4.10 The FMH will be funded from a number of sources, chiefly through municipal budget appropriations, revenues raised through increases in federal or state tax rates, revenues from applications of FMH funds, federal or state housing budget funds, and the proceeds of local and external borrowings.

4. Property and Zoning Compliance Department

- 4.11 SEHAB's Property and Zoning Compliance Department (RESOLO) handles the legalization of nonconforming subdivisions, so that the municipality can have a single urban zoning and layout plan from the technical, legal, and administrative standpoints. RESOLO is responsible for the following main functions: (i) legalization of land use and of subdivisions and their planning and zoning compliance; (ii) tendering of designs, construction work, and services; (iii) administration of the Judicial Deposit holding monies paid for lots acquired in clandestine subdivisions; (iv) legal counsel for owners of nonconforming lots; and (v) ongoing contact with other agencies working in the same area (Property Register, Public Registry Authority, and the State Housing Ministry).
- 4.12 The proposed program includes measures to strengthen RESOLO, to help it perform its subdivision legalization functions more effectively. The department is to be reorganized to adapt to the demands of new guidelines and procedures set forth in the 1995 Subdivision Legalization Act. An institution-strengthening plan described in chapter II has been devised to that end. A consulting firm to produce a study on the workings of RESOLO is to have been hired within six months after the effective date of the loan contract, the consultants' recommendations are to be implemented within 24 months after the effective date of the loan contract.

C. Technical support for implementation of the program

- 4.13 Because low-income housing programs are a huge undertaking for the Municipality, particularly when they are targeted to favelas, SEHAB/HABI sought technical support from specialized management firms. This decision was prompted by the shortage of specialized in-house staff and the projected cost of setting in place a structure capable of managing all the agency's construction projects.
- 4.14 Since 1990, two management firms have provided HABI with technical, management, and administrative support for its various low-income housing schemes. These companies were engaged in accordance with Federal Procurement Act guidelines for the hiring of consultants with "special expertise", where the technical capabilities of a firm are paramount. The technical expertise of the firms in question was verified by SEHAB when they took part in PROVER, from the design and development stage through execution. Because of their technical strength and their familiarity with the program, these same management firms will continue to offer technical support to the executing agency for the proposed program (through the Office of the Secretary) and to HABI and RESOLO in the specific areas that will fall to them.
- 4.15 The decision to retain these same management firms was based on a number of other factors, above and beyond their technical expertise: (i) a new call for proposals would take at least six to eight months, during which time no SEHAB program activities could be carried out with the IDB, since SEHAB does not have the management capabilities needed to implement a project of these dimensions without management consultant support; (ii) because the proposed program is part of the larger PROVER, use of the same consultants for both will hold down costs and make for much more efficient delivery of services, given the experience these firms have built up; and (iii) the cost of their services is similar to the cost of other municipal contracts tendered locally and internationally.

V. FEASIBILITY OF THE PROGRAM

A. Technical feasibility

- 5.1 Designs for the program conform to the standards and specifications of municipal and state agencies in charge of delivering and maintaining the different infrastructure services involved. This will facilitate construction and subsequent maintenance of these facilities and ensure their quality.
- 5.2 The professionals who helped develop the concept for the program and produce the designs have ample experience with similar projects. The designs call for local materials and labor and simple construction techniques that can be adapted to the different structures envisaged, with construction specifications that are on a par with applicable international standards. The Government of the Municipality of São Paulo (PMSP) has adequate experience in the design and construction of multifamily apartment buildings in favela redevelopment projects through a program it has been funding directly since June 1994.
- 5.3 For the foregoing reasons, the project team considers that the project plans in the indicative sample, and by extension those for the program generally, are technically viable.

B. Environmental feasibility

- 5.4 The program should have a positive impact on the environment, since it will improve conditions in the currently unhealthy environment in which slum dwellers are living and cut pollution in the city as new settlements are hooked up to the sewer system and trash is collected. The environmental quality control system for the program was reviewed by the project team and submitted, through the environmental summary, to the Bank's Environment Committee, which approved it. The planned environmental protection measures are considered to be adequate, and the program is environmentally viable.

C. Institutional feasibility

- 5.5 SEHAB's staff is equipped to carry through the proposed program, and the planned organizational structure for implementation is considered to be adequate. However, given the scale of the operations envisaged, provision has been made to strengthen the management capabilities of HABI and RESOLO, the two units that would work most directly with the program, to ensure that they perform their functions and responsibilities effectively. Specialized works projects have been delegated to the corresponding municipal and state agencies (SABESP, ELETROPAULO, SVP, SSO, etc.). COHAB has brought in measures to upgrade and strengthen its

collection and contract administration system, and should be able to keep overdues rates at a reasonable level.

- 5.6 To expedite the program, some services will be contracted out, and specialized management firms will be engaged to offer support in tasks such as project analysis, construction supervision, physical and financial planning of operations, monitoring of social elements, administrative and financial control, and general logistics. Relations between the different municipal and state agencies that will take part in the program have been formalized by means of interagency commissions, to help make the redeveloped population enclaves part of the regular urban and social fabric of São Paulo.

D. Financial feasibility

1. Financial analysis of the program

- 5.7 The program will be funded through the Municipal Housing Fund (FMH), through which the proceeds of the proposed IDB loan would be channeled. Under the terms of the act establishing the FMH, IDB funds would have to be repaid to the Municipality on the same terms accorded the borrower.
- 5.8 According to the cashflow table prepared when this operation was being analyzed, the program would yield a surplus of US\$76.4 million, which will capitalize the FMH.
- 5.9 If this policy is maintained and the Municipality were to earmark some US\$300 million annually for SEHAB for this purpose over 11 years, it would benefit close to 385,000 families – the number living in favelas at this writing. For an initiative of this nature to be sustainable there would need to be a continuing political commitment to keep investments at the required level, and efficient municipal financial management.
- 5.10 Given the Municipality's average capital outlays over the past four years (see Table V-1), the investment levels envisaged should be sustainable.

2. Financial situation of the Municipality of São Paulo

- 5.11 Thanks to adjustments made by the municipal government to the city's finances, notably in the areas of taxes and current spending, the Municipality's financial condition is healthy at present. The improvements in current savings are evident from the table below. Specific accomplishments on this front are (i) a greater tax effort, which has increased municipal per capita tax revenues by close to 80% since 1993; (ii) maintenance of per capita current expenditures (US\$345/resident); and (iii) a 15% reduction in the number of employees per 1,000 population, which has enabled

the Municipality to pay better salaries and retain better qualified staff (an increase of close to 37% in per-employee payroll costs).

Table V-1
Financial situation of the Municipality of São Paulo
(in millions of 1995 reais)

	1993		1994		1995		1996	
	R\$	%	R\$	%	R\$	%	R\$	%
Current revenues	3,027.80	100.00	3,442.20	100.00	4,372.40	100.00	4,776.90	100.0
Current expenditures	3,339.90	110.31	3,233.90	93.95	3,341.40	76.42	3,519.40	73.68
Current savings	-312.10	-13.31	208.30	6.05	1,031.00	23.58	1,257.50	26.32
Capital expenditure	972.70	32.13	821.30	23.86	1,645.50	37.63	1,692.20	35.42
Surplus/Deficit (-)	-1,284.80	-42.43	-613.00	-17.81	-614.50	-14.05	-434.70	-9.10
Financing	1,284.80	42.43	613.00	17.81	614.50	14.05	434.70	9.10
Taxes per capita	125		160		204		226	
Employees/1,000 population	14		13		13		12	
Payroll expenditure/employee	8,204		8,051		9,682		11,212	
Capital expenditure per capita	99		82		163		166	
Current expenditure per capita	339		325		332		345	

- 5.12 The Municipality achieved this financial situation by privatizing a number of services for which it was responsible, such as solid waste collection and disposal and urban transit. As a result, it went from a current deficit in 1993 equal to nearly 10% of current revenues to a surplus equal to 24% of revenues in 1995. In that same interval the Municipality achieved a budget surplus of nearly 7% with a 70% increase in per capita capital expenditure.
- 5.13 On the borrowing side, rather than taking on new loans, the municipal government elected to reconfigure its debt profile to match due dates more closely to investment maturity dates. With the federal government it negotiated a swap of municipal bonds for federal bonds, which will mean interest-payment savings of close to US\$75 million a year starting in 1996. The municipal debt now stands at about US\$5.5 billion, or 1.15 times its 1996 current revenues forecast. Taken together, these measures are enabling the Municipality to mobilize additional funds to finance its capital investment program.
- 5.14 Although the indicators shown in Table V-1 suggest that there is room for further streamlining to help the city's administration work more efficiently, the Municipality is considered at this time to have an adequate financial situation and a modern public finance management system with very competent technical personnel.

- 5.15 It can be concluded from the foregoing that the Municipality would have adequate funds for the local counterpart for the proposed program and to service the debt.

E. Economic feasibility

1. Methodology

- 5.16 Gathering of data. The findings of a SEHAB-designed socioeconomic survey of favela dwellers were used for the economic appraisal of the proposed program. This appraisal furnished data on household income and expenditures and on the price, construction quality, location and physical and environmental conditions of dwellings. A total of 2,048 households were surveyed using the SEHAB questionnaire, 1,280 of them in favelas and 768 in other low-income housing complexes in São Paulo. One of the chief aims of the survey was to come up with reliable data for estimating the market value of the housing solutions being proposed in the program.
- 5.17 Scaling of the program. About two thirds (810) of the 1,280 questionnaires administered in favelas were validated, and a second round of interviews was conducted in 455 dwellings to corroborate income levels and families' ability to pay. Based on the findings of these surveys, it is estimated that after application of a progressive scheme for allocation of funding by type of solution, 23% of the households would be able to afford a lot with core housing, and 77% could pay for one of the three sizes of apartment units being proposed - the anticipated result of a "self-targeting" approach. In keeping with this percentage breakdown, 80% of the program funds would go to solutions to be offered in favelas (about 9,000 apartments and 2,000 lots with core housing), and 20% would fund the subdivision legalization component, which would address the needs of about 21,000 nonconforming lots.

2. Appraisal findings

- 5.18 Least-cost analysis. The design of the housing solutions adheres to a standard of minimum necessary size. The resulting construction cost is US\$340 per square meter, which is lower than the cost of similar dwellings in São Paulo, at the equivalent of US\$505 per square meter. The project team is satisfied that the solutions envisaged are least-cost approaches, and therefore comply with the Bank's housing finance policy.
- 5.19 Benefit estimation. The market value of the housing solutions under consideration is a measurement of the gross economic benefit that would accrue to families who purchase the different housing solutions offered under the program. These values were estimated by applying the hedonic pricing method to the survey data, expressing the prices as a function of design parameters for the proposed solutions through estimated equations.

- 5.20 Externalities. On average, the razing of favelas would increase housing values in a 500-meter radius by an estimated 8%. Since this parameter declines proportionally with distance from the favela, it was judged to be nil beyond that radius. This externality of enhanced value was assessed only for the indicative sample of projects involving multifamily apartment buildings.
- 5.21 Favela development subprogram. The hedonic price estimates performed showed the traditional variables of size, construction quality, and availability of infrastructure and basic utilities to be significant features of the solutions examined. Nevertheless, for the apartment-building option, the variables of location (distance from closest main commercial district) and neighborhood (average household income and frequency of building permits in the vicinity) were also highly significant, with practically equal influence on total variance in the price of these solutions. A comparison of market values and costs of each solution revealed that all would yield positive returns, ranging from 10% to 30% over their cost. The margin is widest for the three-bedroom apartment option, and slimmest for the lot-plus-core-housing option.
- 5.22 Subdivision legalization subprogram. For the nonconforming subdivisions, with a relatively modest outlay of US\$3,300 per lot for the basic infrastructure needed to bring them into compliance, their market value would rise 71% over current market value. This valuation gauges the effect of bringing such subdivisions into the formal land and housing market. Their legalization has been made possible by newly adopted city standards that allow smaller-sized lots to acquire legal status.

Table V-2
Market value, cost, and return of housing solutions
(in U.S. dollars)

Option	Market value	Construction cost 1/	Value/cost
Lot with core housing	12,500	11,200	1.1
One-bedroom apartment	18,200	15,200	1.2
Two-bedroom apartment	22,500	18,000	1.2
Three-bedroom apartment	30,000	23,000	1.3
Legalized subdivision	(incremental value) 28,300	3,300	8.6

1/ Includes costs of infrastructure, construction, and land.

- 5.23 Returns for the program. To verify the returns of the program undertakings, a cost-benefit analysis was performed for two favelas, assuming construction of two-bedroom apartments. The analysis revealed that returns would vary depending on differential

redevelopment and construction costs for each enclave, due to location and different degrees of physical and environmental risk. For subdivisions, two different locations were examined; as expected, the returns were high. No lot-plus-core-housing project could be included in the sample, but an analysis of returns for such projects would be comparable to the subdivision findings. However, on the basis of the hedonic price analysis, it was estimated that a plot of land in a favela after it was redeveloped and a core housing unit was built would be worth, on average, 31% more than its original value.

Table V-3
Findings of the cost-benefit analysis of the indicative sample
(in millions of U.S. dollars)

Indicative sample	Capital investment	Direct valuation	Indirect valuation	Total	IRR (%)
Favela enclaves:					
Jardim do Lago (276 units)	4.5	6.3	4.0	10.3	53.0
Bela Vista (1,020 units)	16.6	23.1	2.9	26.0	13.6
Subdivision legalization:					
Tapera Velha (773 lots)	1.0	14.8	n.d.	14.8	n.a.
Parque Cerejeira (953 lots)	3.1	18.2	n.d.	18.2	n.a.

5.24 Overall program rate of return. It can be concluded from the foregoing analysis that investments for this program will yield very high returns, both in favelas and in subdivisions to be legalized (see Tables V.2 and V.3).

5.25 Poverty level of beneficiaries. When the figure of US\$104 per capita as the poverty line for Brazil (1995) is applied to the data elicited in SEHAB's survey of favela residents, an estimated 63.4% of the families living in favelas that stand to benefit from the program fall below the poverty line, with monthly incomes equal to US\$510. According to that income level and the arrangements proposed for the sale of the program's housing solutions, these families would be able to afford up to a two-bedroom apartment. It thus can be concluded that this project is heavily targeted to low-income groups.

F. Benefits and risks

1. Benefits

5.26 A first benefit of the program will be an increase in the personal wealth of the low-income families it assists, when the Municipality recognizes the property rights of families living in the targeted favelas. As a second benefit, property values in those areas and in currently nonconforming subdivisions will rise in the wake of

the planned redevelopment outlays, including new basic infrastructure and services and new housing construction. And significant benefits will ensue from the increase in value of property adjacent to the favelas and subdivisions that are to be brought into compliance with city plans and ordinances.

- 5.27 Equally important are the intangible benefits the program is expected to provide, namely (i) by helping to break the circle of poverty and giving São Paulo favela dwellers a better life, and offering every program beneficiary the opportunity to become a legal homeowner in the city; (ii) by respecting existing community ties and ensuring that residents continue to have ready access to their workplace, by virtue of the plan to relocate as few of the affected families as possible; and (iii) by instilling new communal behavior habits, including those relating to the use of new private and collective inhabitable spaces that will be made available through the apartment-building option.
- 5.28 The chief long-range benefit to the city itself will stem from the nature of the housing options ultimately afforded by the program, which will make it possible to increase population density and thereby lower the cost of expanding the city, making maximum use of the social infrastructure already in place. Likewise, as property values rise, the municipal government will be able to recoup part of the investment in the short term through city property taxes.

2. Risks

- 5.29 A central premise for the program's success is careful attention to its social elements, primarily the provisions for community involvement and organization. Any failing in this area could jeopardize the implementation of the program and the attainment of its ultimate objectives. To counter this critical risk, particular emphasis was placed at the design stage on the development of a "Social Action Plan" that will ensure a comprehensive, multidisciplinary approach to the social components of the proposed operation, with provision for community involvement at every stage. The Social Action Plan will ensure that there is community input at every phase and that health and environmental education programs are offered, that conditions are set in place for organization and strengthening of local social associations, and that permanent channels for consultation and communications between the authorities and community organizations are fostered, to resolve disputes in a spirit of cooperation and shared responsibility.
- 5.30 There is a risk that maintenance of the program buildings might be neglected. However, unlike other government-sponsored low-income apartment housing schemes, beneficiaries of this program will come to own their dwellings, and there will thus be much less risk of their being allowed to fall into disrepair. In addition, it has been arranged with SEHAB for the Social Action Plan to include ways of ensuring that condominium systems will be sustained; to that

end, specific activities have been included in the module for post-occupation support to help and monitor beneficiaries as they set up residents' associations, and to organize educational events to help instill new attitudes and understandings regarding matters such as compliance with condominium requirements and the maintenance of physical infrastructure in individual apartments and in common areas.

- 5.31 A further potential risk is that the housing solutions made available under the program could end up, in the short term, in the hands of middle-income families, who would thereby appropriate the program's benefits. Special care was taken when the program was being designed to counter this risk: the housing solutions being proposed are, by virtue of their market value, concordant with the expectations of the target population and its ability to pay. Another provision that would allay this risk is that the beneficiaries will only be able to sell their units legally after the third year. In that interval, they will have time to become accustomed to their new living conditions and will be unwilling to return to substandard housing, and will capture any additional valuation gains over this period.
- 5.32 The term of office of the present municipal authorities will finish at the end of 1996, and while it appears that the current mayoralty candidates support the program proposed herein, there is always a possibility that the priorities of future administrations might shift or that they might adopt a different approach to the problems being addressed with this program. This would jeopardize the continuity of investments needed to resolve, over time, the problem of mushrooming favelas in São Paulo. However, as was noted previously, the works financed under this operation will have a socioeconomic impact independent of future government actions.

LOGICAL FRAMEWORK: FAVELA IMPROVEMENT COMPONENT

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ing conditions of 11,000 families avelas in the municipality of to bring them into the civic life and raise their standard of living	<ul style="list-style-type: none"> • Number of people afforded access to public utilities and legal housing 	<ul style="list-style-type: none"> • Registry and field research • Property-roll registration of families, by favela targeted • Satisfactory compliance with stages for development of each favela (see paragraph 3.5) 	<ul style="list-style-type: none"> • Approval of legislation authorizing of ownership of land • Adequate provision of SABESP (sewerage) and ELETROPAULO services • Adequate provision of municipal ment services (trash collection)
ccess to basic sanitation and public utilities and services	<ul style="list-style-type: none"> • Public utility payment performance • Number of residential connections — water, sewers, electricity • Trash collection 	<ul style="list-style-type: none"> • Number of SABESP and ELETROPAULO accounts • Programming and implementation of collection plans by trash removal companies 	<ul style="list-style-type: none"> • Success of the Social Action Plan community involvement • Payment by beneficiaries of public used • Disposal of trash at pick-up point
of property ownership for s, by offering housing products their different income levels and ncing and subsidies available	<ul style="list-style-type: none"> • Number of use permits and legal title deeds (apartments and lots) • Number of financing agreements • Total volume of loans 	<ul style="list-style-type: none"> • Property register • Property tax records • COHAB contract register 	<ul style="list-style-type: none"> • Approval of legislation authorizing legalization • Expedient processing of legalization arrangements: (i) de-designation and (ii) authorization of sale of property
al organization and involvement ries, to help them become part community	<ul style="list-style-type: none"> • Number of community associations (i) at the start of the program, (ii) implementation indicators and (iii) in developed lots • Number of beneficiary households with legalized instruments • Number of condominiums legalized 	<ul style="list-style-type: none"> • Routine reporting system established in Social Action Plan 	<ul style="list-style-type: none"> • Residents' participation in proposed programs
on of families ork and communications strategy ting determination ental monitoring system d housing units /development of favela areas g of outcomes	<p>Statistics on:</p> <ul style="list-style-type: none"> • Effectiveness • Beneficiary satisfaction • Number of apartments and lots with core housing built • Infrastructure and city services: <ul style="list-style-type: none"> - 100% of streets with water, sewers, and trash collection - 100% of streets with street lighting • Social services: <ul style="list-style-type: none"> - 100% of residents have taken part in health and environmental education activities - 100% of school-age children attending school - 100% of families have access to community health services 	<p>Documents produced:</p> <ul style="list-style-type: none"> • Field research — verification or opinion of beneficiary families • Field research — verification of market value of new housing units • Terms of final acceptances • Property rolls — verification of registries • ELETROPAULO-SABESP services — satisfactory performance of contracts with the municipal government • Trash collection — field verification • Updated cadastre of favelas • Updated FIPE survey of favelas targeted 	

LOGICAL FRAMEWORK: SUBDIVISION LEGALIZATION COMPONENT

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ward the rights of approximately chasers of lots in nonconforming ns	<ul style="list-style-type: none">• Number of purchasers who secure duly registered property deeds	<ul style="list-style-type: none">• Property register	<ul style="list-style-type: none">• Adequate provision of SABESP (water and sewerage)• Adequate provision of ELETROPAULO services (power)• Adequate provision of municipal waste management services (trash collection)• Beneficiary compliance with res• Judicial Deposit of installment p
nonconforming subdivisions into e with city planning, zoning, and ntal standards	<ul style="list-style-type: none">• Number of residential connections — water, sewer, electricity• Trash collection routes• Terms of acceptance of works to bring subdivisions into compliance	<p>Number of SABESP and ELETROPAULO accounts:</p> <ul style="list-style-type: none">• Programming and execution of trash removal companies' collection plans• Verification of terms of acceptance	<ul style="list-style-type: none">• Adequate provision of SABESP (water and sewerage)• Adequate provision of ELETROPAULO services (power)• Adequate provision of municipal waste management services (trash collection)• Adjacent street system adequate
ne lot	<ul style="list-style-type: none">• Number of abstracts and files of legalization plats in respective property registers• Number of deeds registered	<ul style="list-style-type: none">• Property registers• Property tax records• Field research	
on of families n/adequacy of lot regularization	Statistics: Beneficiary satisfaction Number of lots legalized	Documents produced: Field research Terms of final acceptance of infrastructure works <ul style="list-style-type: none">• Inspection of property• ELETROPAULO and SABESP services• Trash collection — field verification	

SUMMARY OF THE SOCIAL ACTION PLAN

I. BACKGROUND

The Social Action Plan prepared by SEHAB/HABI, with the support of a consulting firm, considers the accumulated experience of the initial phases of PROVER. It incorporates the positive aspects of that experience and proposes actions that, in addition to correcting some problems identified during implementation of phase 1, incorporate mechanisms for self-targeting and the participation of and communication with the affected population throughout the program. There are also plans to establish coordination mechanisms among the various stakeholders and co-executing agencies of the program: SEHAB/HABI, representatives of the population, financing institutions, construction companies, public institutions (other municipal departments or state enterprises in charge of providing the various services) and/or private interests.

With this perspective the Action Plan presented takes into consideration the viewpoints of the various stakeholders. It will cover all of the phases of PROVER, i.e. not be limited to the part of the program financed by the IDB.

II. SOCIOECONOMIC DESCRIPTION OF THE FAMILIES

Recent data from several sources describe the squatter population of São Paulo and depict the evolution of the mushrooming of favelas in the metropolitan area. The overall FIPE/USP data (1993) were confirmed and reinforced by studies performed by the CLS and the CBPA (late 1995), particularly those ordered by SEHAB/HABI for the specific purposes of PROVER. In spite of this data, substantive differences are found in socioeconomic conditions from one favela to another, depending on where it is located, how long it has been in existence, and kind of occupation, etc. For that reason, the Social Action Plan includes performance of a socioeconomic study (comprehensive diagnosis) of each favela considered by PROVER before preparation of the basic project, in order to adjust the possible outputs to the specific profile of the population of each favela, and allow the residents to conduct effective self-targeting.

Such an advance study marks significant progress over the procedure used at the beginning of the program, which was to merely enroll the families and number their homes.

III. SELECTION CRITERIA FOR BENEFICIARIES

The selection criteria adopted at the beginning of the program were reviewed to prevent insufficient household income from becoming a factor for exclusion, thus creating a new housing problem. When doing the cadastral study with the families, the latter were obliged to prove that household income was enough to assume the payments arising from the apartment building solution. In practice this came to be a factor to exclude families with incomes below four times the minimum wage (R\$400). Consideration of different solutions in the PROVER/IDB operation (one-, two- and three-bedroom apartments, developed lots, swapping the old housing for the new, low-cost rental, and if none of these solutions were accepted, cash compensation for the property) changes the above situation and justifies the adoption of non-excluding criteria.

In order to extend the benefits of the program to the entire population of the favelas included in the program, two basic criteria were identified which replace and expand the above criteria:

- a. complete registration in all the favelas included in PROVER/IDB as soon as they are selected and the program is started;
- b. inclusion of all residents of the favelas as program beneficiaries, giving priority to established families.

Registration of all the favelas at the beginning of the program will make it possible to precisely define the socioeconomic profile of the population; will ensure transparency in the selection process once the beneficiaries of the program are identified; will reduce the risk of real estate speculation; and will entail a subsequent freeze of the selected area(s), leaving it up to the beneficiaries themselves to organize for that purpose.

The inclusion of all the residents, regardless of income level, number of children or marital status (whether married or living together, widowed, divorced or single) responds to the mechanism that makes it possible to validate acceptance of the program on the part of the community, with equity.

IV. PROPOSED SOCIAL ACTION METHODOLOGY

The proposed social action methodology is based on the following principles:

- a. The fact that the favelas are decreasingly temporary while they remain precarious, requires that the government conduct operations that make it possible to reconstruct the basic "habitat" and health

conditions of the population, eliminating the risks associated with living in environmentally inappropriate areas, among others;

- b. The operations needed assume the incorporation of the favelas into the official city, access to both land ownership and the various city services.
- c. The complexity of the favela phenomenon and the interdependency of the variables required to solve the identified problems demand a **comprehensive and interdisciplinary approach in terms of policies** (urban, housing, social), **stakeholders** (community, community activists, advisors, financial institutions), **executing teams**, and **the targeting programs themselves**.
- d. A comprehensive and interdisciplinary approach does not simply mean recruiting professionals from various disciplines. It means establishing work processes in which the specific contribution of each participant is always in line with the overall perspective of the intervention process. Therefore the approach must take into account: (i) **urban planning and environmental considerations** (the physical and spatial aspect); (ii) **socioeconomic and organizational considerations** (the processes that affect the physical and cultural space); and (iii) **legal aspects**, which govern title records (possession/ownership) and regulate land use and occupancy.
- e. Methodologies must be adopted to expand the educational component and participatory practices. The participatory process seeks to: (i) provide the communities with information, a realistic perception of their situation, and opportunities to discuss the program's intervention proposals; (ii) raise the consciousness of the population about its problems and needs, and the relationship between them and the greater context in which they are found; (iii) stimulate the organization of groups and the identification and mobilization of leaders who are truly representative of their communities; (iv) propose actions to address the identified needs; and (v) cooperate in opening channels of participation through which the government and the organized population can identify problem situations and jointly define lines of cooperative work and shared responsibility.

V. PHASES OF EXECUTION OF THE SOCIAL ACTION PLAN

Module 1: Preliminary activity

Module 1 proposes to prepare the residents to discuss the program and the social changes it will bring about. Plans for this phase include the following actions:

- a. The identification of, and prior contact with, the leaders and representative organizations of the squatter communities;
- b. Registration of the families living in favelas to participate in the program;
- c. Meetings with the leaders, representative organizations and residents in order to: (i) introduce the program and provide basic guidelines on favela selection criteria, objectives, family selection criteria, possible outcomes, contracting conditions, financing and legalization of each of the solutions offered; (ii) present the results of registration, discuss the work plan and relations among the stakeholders, tentative schedule of works and its implications for the residents; and (iii) debate the role of the community and define possible partnerships in the design and execution of the program.

This module introduces the residents to the program so that they can begin to work on the process of self-targeting.

Module 2: Preparation of the comprehensive diagnosis

The comprehensive diagnosis will be based on the results of a study of the socioeconomic, physical, and environmental (urban planning) issues, analysis of the terms and conditions for occupancy of the properties, land-title legalization and financing. The diagnostic study will be both quantitative (socioeconomic, forms of organization, description of the properties, environmental conditions, etc.) and qualitative (history of occupation of the area, struggles and gains of the communities, dynamic and correlation of existing forces, both internal and external, profile of the leaders, etc.). An analysis and compilation of the data gathered will make it possible to perform a detailed diagnosis of the situation, facilitating a later discussion of urban planning, social, and property legalization proposals.

The following activities are planned to facilitate performance of said comprehensive diagnosis: (i) publicize and discuss with the leaders and residents the purpose, importance, and modalities of the survey; (ii) define the groups of community representatives who will participate in the joint planning and monitoring of the survey activities; (ii) conduct the survey; (iv) issue analytical reports; and (v) the interdisciplinary team conducts the comprehensive diagnosis.

Module 3: Social monitoring in the process of discussion and definition of the basic project

This module includes four basic stages:

- a. **Presentation of survey results to the community and discussion therewith.** This will allow the population to better understand the

area's problems from an environmental, urban planning, and social perspective. It will also show how difficult it is to find the right solutions to address these problems.

- b. **Presentation and discussion of the preliminary intervention proposals.** This will include: (i) classification of the possible interventions in the area; (ii) sectors that may lend themselves to one solution or another (apartment buildings or lots with services); (iii) physical restrictions of one solution or another; (iv) analysis of the degree of overcrowding in an area and its implications for what kind of housing solution to use; (v) qualitative urban planning models of the proposed interventions; (vi) number of resettlements required for each kind of intervention; (vii) applicable property legalization mechanisms; expected steps and time frames to gain legal property titles (apartment or lots with core housing unit); (viii) final estimated cost of each product presented, and respective fees for the beneficiaries; (ix) elements that may facilitate or complicate the proposed interventions versus negotiations.

The results of this second stage will subsidize preparation of the basic project.

- c. **Presentation and discussion of the preliminary basic project,** according to the type of intervention possible. In the case of **lots with services** this includes: (i) habitability criteria; (ii) subdivision of lots, definition of the road system and institutional areas, and parks and recreation; treatment reserved for at-risk areas; (iii) infrastructure (water, sewers, drainage, trash collection, electrical power lines, consolidation works, etc.). In the case of **apartment buildings** this includes: (i) number of buildings, living units, parks and recreation areas, parking, infrastructure and collective facilities; (ii) description of the buildings - apartments, access, circulation between floors, common areas and equipment (systems to monitor use of energy, water, sewers, trash, telephone lines, etc.); (iii) description of the apartments and architectural design; square footage, water and electrical hook-ups; construction materials; improvement possibilities, etc.; (iv) finance costs, plans and terms; (v) payment of water and electrical bills; condominium fees; and (vi) conditions and time frame of the process until legal title to the property is obtained.

In the case of clusters of buildings constructed in green areas, which bring together families from neighboring favelas, participatory planning for occupation of the buildings should be strengthened. In addition, there should be interinstitutional coordination to ensure that services are available in the areas next to the complexes, such as: (i) complete preschool and primary education (availability of facilities and their capacity to handle

additional enrollment, location, etc.); (ii) health services (facilities and kinds of services available, professional staffing, etc.); (iii) public safety (stations and coverage capacity); (iv) transportation (strengthening existing lines during rush hour, posting of signs, etc.); (v) communications (pay phones, mail delivery); (vi) community facilities (day care and other centers); and (vii) trash collection system.

These issues should be discussed in small neighborhood groups to facilitate their understanding, before holding an assembly with all the sectors of the favela.

- d. **Time frame for acceptance of the basic project.** After these issues have been duly discussed and worked on in subgroups of different sectors of the favela, an assembly will be held in which the residents are invited to vote on the program. If a consensus cannot be reached (two-thirds majority of the population) at the first assembly, the discussion process should be repeated and the basic project should be reviewed. The final program can only be prepared with the consent of the majority of the population.

Module 4: Monitoring of the physical works

This module includes five stages:

- a. **Monitoring of the plan of attack for the works:** (i) prepare the interdisciplinary team in advance (language unit, motivation methodology, etc.); (ii) define the discussion groups, strategy of meetings by interest group, degree of involvement, losses and gains, etc.; (iii) train community agents and partners to disseminate information to the residents on the need to freeze the areas; (iv) establish a joint action timetable (social actions and works); and (v) hold meetings by sector and specific group of residents (timetable of the works, complications, security measures, resolution of possible conflicts and/or tension areas, etc.).
- b. **Temporary resettlement of families:** (i) define the timetable for resettlement and the works plan; (ii) map out individual households, and later, groups of them; (iii) hold meetings to define the temporary resettlement plan and negotiations; (iv) conduct inventory of the properties for organization of transfer; (v) conduct resettlement.
- c. **Monitoring of families in the temporary housing:** (i) track the social organization of the residents; (ii) discuss the rules of residency and physical maintenance (individual and collective) of the housing; (iii) prepare the documentation to meet contractual obligations prior to transfer to the new place; (iv) discuss planning for the new expenses (mortgage payment; services;

- condominium fee for the apartments); (v) discuss and define the occupation criteria for the new units; (vi) monitor the cases that fit into neither the apartment or developed lot solution (low-income rentals, compensation, other); and (vii) plan and carry out the resettlement.
- d. **Monitoring and preparation of favela families with provisions for direct resettlement**, to prepare them for the program and to occupy new housing units (essentially the same activities as in the above paragraph).
 - e. **Installation of a "social outpost,"** or permanent office on-site to serve the residents either individually or collectively, and guarantee a system of direct communication and information on the nature of the program and how to participate in it.

Module 5: Social support during the property legalization process

The objective of this module is to clarify for the population the steps and time needed to legalize their lots and later their homes. Secondly, it will prepare the community to monitor and expedite the property legalization process, along with the HABI legal office and other entities.

Module 6: Social action once the apartments and developed lots are occupied

Social actions once the property is occupied is directly related to the transfer of families to their new homes and the operation of different infrastructure networks, in coordination with the institutions responsible for services. The following activities are planned: (i) train the population on the proper and efficient use of facilities; (ii) hold campaigns to increase awareness of environmental protection (trash collection, maintenance and planting of trees around buildings and public areas); (iii) plan for individual and collective expenditures; (iv) establish condominium organization (rules, etc.) and carry out educational activities (new health and hygiene habits, how to live together, expand their civil rights) to guarantee their collective quality of life and preserve their assets.

VI. MONITORING OF THE SOCIAL ACTION PLAN

This phase is subdivided into two stages: (i) during implementation of the program, the comprehensive data system (social, works, and legal data) will permit continuous monitoring of implementation; (ii) after the final phase of the program, monitoring of the main social indicators will be conducted in three years, or until sale of the property. Such indicators would include: whether families stay in their new homes; rate

of arrearage; developments in household income and employment status; access to services, etc. Monitoring of the action plan should be compatible with the program's overall monitoring system.

TENDER SCHEDULE FOR FAVELAS

Favela	No. families (a)	Housing units planned in the program	Expected cost of the works program (US\$000)	Month/Year Tender on works	Month/Year Start of works	Month/Year Completion of Works
Heliopolis - Tract A	1,868	1,690	24,300	July/96	December/96	February/97
Heliopolis - Jose P. Santos	1,155	1,045	15,000	July/96	January/97	March/97
Pq. Continental/S. Domingos/Caramazal	891	806	23,700	July/96	February/97	April/97
Madeirit/Votorantim	923	835				
Morro da Esperança	650	588	15,000	July/96	March/97	April/97
Sucupira/N.S. Penha	507	458				
Vila da Paz/Nicaragua	895	810	14,500	July/96	April/97	May/97
Gastão Ramos/Beatriz	220	199				
Nova Jaguaré	2,119	1,923	27,600	July/96	May/97	June/97
P. N. Mundo — Fase 2	1,488	1,346	19,430	July/96	June/97	July/97
Totals	10,716	9,700	139,530			

According to the current data of the Government of the Municipality of São Paulo, which will be confirmed during the cadastral study, it is estimated that approximately 10% of the families that live in the favelas will not choose any of the program's solutions because their homes are superior to the "lot with a cover".

TENDER SCHEDULE FOR NONCONFORMING SUBDIVISIONS

Group	No. lots	No. subdivisions	Expected cost of works (US\$1,000)	Month/Year Tender of works	Month/Year Start of works	Month/Year Works completed
1	4,240	21	8,260	November/97	March/98	March/99
2	4,240	21	8,260	January/98	May/98	May/99
3	4,240	21	8,260	April/98	August/98	August/99
4	4,240	21	8,260	August/98	December/98	December/99
5	4,240	21	8,260	November/98	March/99	March/00
Totals	21,200	105	41,300			

PROPOSED RESOLUTION

BRAZIL. LOAN /OC-BR. TO THE MUNICIPALITY OF SÃO PAULO
(São Paulo Upgrading of Favelas Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Municipality of São Paulo, as Borrower, and the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the São Paulo Upgrading of Favelas Program. Such financing will be for the amount of up to one hundred fifty million dollars of the United States of America (US\$150,000,000), or its equivalent in other currencies, except that of Brazil, which are part of the Ordinary Capital resources of the bank, and it will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.