

**RIO DE JANEIRO URBAN UPGRADING PROGRAM,
“FAVELA-BAIRRO” – STAGE II**

(BR-0250)

EXECUTIVE SUMMARY

Borrower:	Municipality of Rio de Janeiro	
Guarantor:	Government of the Federative Republic of Brazil	
Executing agency:	Secretaria Municipal de Habitação [Municipal Housing Department]	
Amount and source:	IDB (OC):	US\$180 million
	Local Counterpart:	US\$120 million
	Total:	US\$300 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	4 years
	Amortization period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	currency pool
Objectives:	The objective of the program is to improve the quality of life of low-income groups living in marginal areas in the city. Basic infrastructure and social services will be provided and the beneficiaries' properties will be regularized, integrating these areas socially and urbanistically into the formal city.	
Description:	This second stage of the program will finance integrated programs to upgrade favelas and unregulated subdivisions in the municipality of Rio de Janeiro, combining investments in infrastructure with social development activities. The program will have the following components:	
	<ol style="list-style-type: none"> 1. Integrated urban development (US\$211 million). Will finance basic infrastructure, and urban and social services in the two types of settlements covered by the program. The following works and services will be financed: <ol style="list-style-type: none"> (i) <u>infrastructure</u>, including water supply, sanitary sewerage, 	

storm drains, roads, electricity and street lighting, environmental protection (planting trees along streets, forestation for erosion control and soil stabilization), trash collection, social facilities (community and childcare centers), public squares and sports grounds, and resettlement; (ii) community development, including actions to promote community participation in the planning, execution and consolidation of activities and follow-up on the completed projects; and (iii) property regularization, including technical and legal assistance in regularizing properties in favelas and unregistered subdivisions. The projects will be designed and carried out in close cooperation with the communities.

2. **Assistance for children and adolescents** (US\$25.5 million). This component will finance social welfare activities in order to enhance the physical, psychological and social development of children and teens under 18 who live in the favelas included in the two stages of the program. The component includes: (i) childcare for infants and toddlers (daycare centers and alternative types of care); (ii) school retention and enrichment (through food incentives, family outreach, cultural activities and sports, nutritional supplements and tutoring); (iii) reinforcement of preschool education; (iv) actions to address special problems or serve specific groups (prevention of teen pregnancy, support for the disabled, mutual assistance networks, support for families at risk and gender issues for children); and (v) assistance, shelter and family outreach for at-risk groups (drug addiction, prostitution, domestic violence). Most of these projects will be implemented by civil society organizations.
3. **Job and income program** (US\$9 million). Includes: (i) specialized training, grants for specific vocational courses and technical assistance for self-employed professionals and microentrepreneurs; (ii) support for productive units; and (iii) improved education, involving continuing education programs for adults (based on video courses with instructor monitoring), which will cover adult literacy and primary and secondary school programs.
4. **Institutional strengthening** (US\$4.5 million). Includes: (i) program monitoring and evaluation to assess the socioeconomic impact, cost effectiveness and sustainability of the program activities; (ii) a study on the extent of the problem of marginal areas in the city; (iii) training for the program's technical staff and for executing agencies and technical assistance for the municipal departments executing the

program; and (iv) public information on the program for the general public and the beneficiary communities.

**The Bank's
country and
sector strategy:**

The Bank's strategy in Brazil stresses the following: (i) promoting the reform and modernization of the federal and subnational levels of government; (ii) supporting the process of economic liberalization and modernization of the productive sectors; and (iii) addressing the problem of social inequity and poverty. The present program focuses mainly on the third priority, through investments in the poorest neighborhoods and social services for the very needy. Investments in reducing social inequity and promoting human capital, in addition to vocational training services, will help to boost the competitiveness of the city's economy and improve the investment climate and quality of the local workforce.

**Environmental
and social
review:**

The program's environmental and social impact is highly positive. Potential negative impacts will be eliminated or mitigated through the environmental and social procedures included in the Operating Regulations. CESI's recommendations have been incorporated into the program (paragraphs 4.19 to 4.23).

Benefits:

Program interventions will ensure that all the inhabitants of the beneficiary favelas and unregulated subdivisions (an estimated 230,000 people) will have potable water, sewerage and drainage services, road access, trash collection, public squares and recreational areas and other services. These actions will have a significant impact on improving the quality of their lives and the physical condition of the areas and will raise property values. The main virtue of the program is its targeted investments aimed at reducing social inequities and preventing and reducing the risks associated with poverty for the most vulnerable groups (children, teens, female heads of households). Other benefits include a reduction in crime in these communities.

Human capital investments will be increased in this second stage to ensure that the interventions are effective. Some 13,900 children and teens and their families will be served under the child and adolescent component and another 84,000 will benefit from the job and income component. These benefits include a significant reduction in the social and health risks to which the inhabitants of the favelas are exposed and will improve their future prospects, education levels and ability to find work.

Risks:

1. *Coordination among the executing agencies* and their capacity to *implement innovative components* is a concern owing to the complex, integrated nature of the project. However, the execution methods and operating capacity of the main agencies have been successfully put to the test in stage one and

in projects to assist children at risk, which will minimize this aspect. A mechanism to coordinate the social components and the physical investments will be introduced and will work before and during implementation of each project, broadening the channels for horizontal communication.

2. *Dependence on community response* for the success of the activities. The preexisting situation of violence in some communities could pose a risk to projects in certain settlements. Although the risk is remote since the possibility of being excluded from the program is an incentive for the communities to overcome these problems, if necessary, the project will postpone its actions in difficult areas or replace those areas with others where the chances of success are greater, based on the list of priorities agreed upon with the borrower.
3. *Management weaknesses in civil society organizations* may pose a risk, which will be allayed through specific institutional strengthening activities intended to match their management capacity to the needs of the different types of projects. The technical and administrative supervisory activities performed by these organizations will also be significantly reinforced.

**Special
contractual
clauses:**

Prior to the first disbursement, the borrower will: (i) place the municipal decree regulating the program into effect, which establishes the responsibilities of the agencies that will participate in program execution; (ii) approve the Operating Regulations; and (iii) sign an agreement with the Companhia Estadual de Águas e Esgotos (CEDAE) (paragraph 3.2).

**Poverty-
targeting and
social sector
classification:**

This operation qualifies as a social equity enhancing project, as described in the key areas of Bank activity set forth in the report on the Eighth General Increase in Resources (document AB-1704) and as a poverty-targeted investment (PTI) (paragraph 4.31). The borrowing country will be using the 10 percentage points in additional financing (paragraph 4.32).

**Exceptions to
Bank policy:**

The guarantee contract does not include a guarantee by the federal government to provide the local counterpart for the program or to settle the borrower's obligation to perform under the contract for the proposed loan. The government guarantee does cover all the financial obligations under the loan contract and the obligation to perform activities within the sphere of competence of the guarantor. The financial analysis demonstrates that the borrower has the capacity to provide the counterpart (paragraphs 3.17 and 3.18).

Recognition of previous expenditures:

The Bank may recognize as part of the local counterpart funding up to US\$9 million equivalent in expenses incurred by the municipality for the preparation and execution of eligible projects up to 18 months prior to approval of the proposed operation by the Board of Executive Directors. The Bank may also recognize as part of the loan up to US\$3 million in expenses incurred up to 12 months prior to signature of the loan contracts.

Procurement:

Goods and services. In accordance with Bank policies, international competitive bidding will be used for contracts for works worth US\$5 million and over and for contracts for goods and related services worth US\$350,000 and over.

Consulting services. Consulting services will be selected and hired in accordance with Bank procedures, as established in Annex C to the loan contract. International competitive bidding will be required for contracts worth more than US\$200,000 equivalent. To hire the institutions that will deliver social services under the children and teens component and jobs and income component, annual prequalification will be used by preference, and prequalification by project, area or set of projects will be used by way of exception, in accordance with the procedures established in Annex C, except for negotiating the financial proposals, since the services have a preestablished fixed price. This arrangement is allowed under the Bank policy for hiring consulting services (document GN-1679).

I. FRAME OF REFERENCE

A. Urban problems in Rio de Janeiro

- 1.1 Like almost every large Latin American city, Rio de Janeiro has been suffering from a serious problem of informal settlement since the wave of migrants from rural areas in the 1970s in response to industrialization. These people, who were unable to find affordable, well-located land or housing, followed a pattern that is common in the region, of squatting on public and private land and in areas where occupancy should be restricted. In other cases, landowners subdivided their properties and sold lots that did not have the necessary infrastructure, which made them cheaper but difficult to legalize.
- 1.2 The process has resulted in the creation of a large parallel or informal city, composed of favelas and unregistered lots. Owing to Rio's topography, the 'other city' surrounds and meshes with the formal city. The poorest people and the most serious social problems are found in this area (see paragraph 1.5). Even though the informal city maintains close functional relations with the formal city, serving as home to a large segment of the workforce and the informal economy, its urban and social conditions are markedly different. The favelas are informal settlements where ownership is not registered, access is difficult owing to irregular street layout, sanitation is poor, and public services (particularly trash collection) and social services are nonexistent. The unregistered subdivisions are areas where the land has been divided into lots and sold, but without the minimum infrastructure needed for their legal recognition and registration.
- 1.3 In 1991, an estimated 1.2 million people or 21% of the population lived in informal settlements in the municipality of Rio de Janeiro. Of them, about 883,000 lived in favelas and 320,000 in unregistered subdivisions. As a result of the work done by the municipality in recent years, the number has been significantly reduced. The first stage of the program benefited about 195,000 people living in medium-sized favelas and 25,000 in unregistered subdivisions that are in the process of regularization. A further 164,000 people have benefited from other municipal programs targeted to large and small favelas. Around 384,000 people have received assistance and, assuming that the shantytown population has remained stable,¹ the problem today (year 2000) would affect 14.6% of the population.
- 1.4 Today, although the most pressing social emergencies have been or are in the process of being resolved, the challenge is to follow-up on the policy of providing urban infrastructure for the favelas and to address the problems of prevention, social services for those communities and regularization of unregistered subdivisions, which continue to be numerous in the municipality.

¹ There are no recent official statistics on the population of the favelas, but it is believed to have grown relatively slowly since 1990. The city's population has remained stable at about 5.5 million. The year 2000 census will shed light on the true situation.

B. Vulnerable groups

- 1.5 Most of Rio's poor live in the favelas. Key poverty indicators are given in Table I-1.

Table I-1
Poverty indicators (1991)

Indicator	City %	Favelas %
% females heads of households	25	25
% illiterate heads of households	7.3	20
% heads of households earning less than 1 minimum wage	5	40
Households with no access to water	4.7	25
Households with no access to sewers	8	35

- 1.6 This situation hits the most vulnerable groups hardest (single mothers, female heads of households, the disabled, young people at risk) and has a negative impact on human and social development, particularly for children and teens. In Rio's favelas, 40% of the population is under 19. The socioeconomic and family uncertainty in which they live multiplies the risks to which they are exposed. Poor hygiene for babies and children, domestic violence, dropping out of school or failing to attend regularly, drug trafficking and teen pregnancy are the consequences and causes of deficient urban and social conditions.
- 1.7 The prospects for children and teenagers are limited by the structural, family and community factors that condition the poverty in which they live. The most significant include: (i) the poor efficiency and effectiveness of the education system, reflected in high repeater rates (20% to 30% in primary school) and low levels of completion (just 70% of student who enter primary school complete it); (ii) high rates of child labor (216,000 children between the ages of 10 and 17 or 12.7% of the total reported as being economically active); (iii) early sexual activity and concentration of female heads of households between 10 and 19 years of age in the lowest income percentiles; and (iv) high incidence of premature death and homicide among the 10 to 19 year group.
- 1.8 These children and young people are exposed to a variety of risks, ranging from belonging to poor families to continuous exposure to the harsh street conditions in which many of them live and/or work. Only a limited number are permanent street children, with the vast majority (over 75%) making up a floating population that lives with their families but that comes and goes depending on home-related factors (e.g. abandonment, rejection, physical and sexual abuse) and the context

(e.g. delinquency, violence, drugs, poor schools). All of them, particularly girls and women, are highly exposed to abuse, on account of the types of work they perform.

- 1.9 With regard to the employment situation in Rio de Janeiro, the pressures of economic adjustment and integration into the regional and world economies have been cushioned by the informal sector. Despite the good capacity of that sector to buffer the crisis, there has been an increase in unemployment among the growing numbers of young people (15 to 24) and older adults (50 years and up). This has occurred in a context in which 34% of the economically active population has fewer than four years of schooling. Thus, the tougher requirements demanded by the formal market, compounded by scant education and high levels of violence and poverty in poor areas, sharpen the problem of unemployment and underemployment in this group.
- 1.10 To address these problems, the municipal government of Rio de Janeiro has implemented an urban and social strategy that includes large investments in slum improvement and a series of programs targeted to vulnerable groups. The Bank has been supporting this strategy through financing for stage one of the present operation, whose results are described below.

C. Lessons learned: The results of stage one

1. General results and impact

- 1.11 The Rio de Janeiro urban improvement program (898/OC-BR), or 'Favela Bairro' as it is widely known, has provided a solid framework for the city's urban and social policies and has had a significant demonstration effect for other jurisdictions. The purpose of the program was to assist some 55 favelas and eight unregistered subdivisions by providing integrated urban and social services. The municipality committed 95% of the program's total funds (US\$350 million counting the increase in the original counterpart) over four years, benefiting approximately 220,000 people. The program has established a new model for integrated urban interventions with controlled costs² and a high degree of effectiveness. The concept adopted for barrio improvement represents a step forward in the field of urban development that integrates multi-sector actions with a territorial focus and direct impacts on health, social welfare and housing. This permits local governments to design strategies to systematically solve their problems of informal urban growth, poverty and social marginalization.
- 1.12 The changes introduced by the program have had a strong positive impact on the favelas, which is reflected in the rise in property values (97% on average) in areas where the works have been completed and a high degree of beneficiary satisfaction. Surveys conducted in favelas with and without the program indicate that between

² The average cost per family in the completed settlements was US\$3,960.

82% and 99% of program beneficiaries were satisfied with services such as paving, street cleaning and public lighting, drainage and sewer systems, while satisfaction with similar services among residents of areas that did not benefit ranged from 33% to 69%. These results are consistent with the opinions voiced by beneficiaries at evaluation meetings held when the current stage of the program was being prepared, to the effect that the improvements in general access to the barrios, cleanliness, sociability for different age groups, and security were the main impacts. The least satisfactory aspect was the insufficient supply of social services, particularly for the most vulnerable groups such as children, teens, the elderly and women, and these are the services given priority in stage two of the program.

2. The intervention model and execution method

- 1.13 One of the main lessons learned has been that integrated actions (in the infrastructure and social spheres) increase the socioeconomic impact of the investments and facilitate more definitive solutions than isolated actions. In addition, integration of marginalized and excluded areas into the rest of the city has significant multiplier effects in the following fields: (i) economic, by increasing the number of businesses and facilitating access to services and centers of employment; (ii) social, by integrating communities with neighboring areas, improving general socioenvironmental conditions, reducing violence by increasing the coverage of public services and policing, street lighting, etc.; and (iii) institutional, by inducing and facilitating the activities of different public and private agencies that provide social services.
- 1.14 However, problems were encountered in execution relating to: (i) frequent overcosts in the budgets for works (although maximum investment levels were respected) as a result of insufficient information on land conditions in the favelas; (ii) difficulties in complementary sanitation works outside the favelas under the responsibility of the Companhia Estadual de Águas e Esgotos (CEDAE) of the state of Rio de Janeiro; and (iii) slowness in the process of property regularization. These problems have been addressed through: changes in the method of budgeting projects, whose road components will be determined in detail during the works; revising the conditions of the agreement with CEDAE to give the municipality responsibility for the complementary works; and boosting the staff working on property regularization.

3. Social components and community participation

- 1.15 Community coordination and participation has been vital in the success of the activities. On-going dialogue with the community through its leaders and public meetings, the empowerment of community organizations and use of local labor in the construction and operation of urban services (trash collection and tree planting) have made project execution viable and assure that the investments will be sustainable.

- 1.16 Public consultations regarding social services have shown a marked preference for childcare facilities that enable mothers to work outside the home. Demand outstripped the supply of these services (just 2,500 children out of the 37,000 assisted by regular Secretaria Municipal de Desenvolvimento Social (SMDS) [Municipal Social Development Department] programs under agreements with civil society organizations were able to attend) and it is necessary to find of other ways of providing daycare by improving the quality of existing alternatives, such as community and home daycare, and others.
- 1.17 Mention should also be made of the lessons learned from the technical-cooperation program for children in difficult circumstances in Rio de Janeiro (ATN-4237/BR) which, with the participation of 44 NGOs, highlighted the need to strengthen the management capacity of these organizations, including their fund-raising capabilities.

D. The municipality's urban and social strategy

1. Rio de Janeiro's urban policy

- 1.18 The municipality's urban policy contains preventive elements that act on the causes of informal urban settlement and actions to remedy the existing situation. It adopted a *master plan* in the early 1990s which establishes goals for subsidized housing policy (incorporation of informal areas, regularization of properties, etc.) and the technical and legal instruments for achieving those goals. One key

Table I-1. Housing programs

1. Medium-sized favelas (500 to 2,500 families): 'Favela Bairro' urban development and social services program.
2. Small favelas (under 500 families): 'Barrinho program' to upgrade small areas.
3. Large favelas (over 2,500 families): urban and socioeconomic development.
4. Population living in sites at environmental risk, isolated land invasions, the indigent: 'Vivir sin Riesgo': subsidized housing on municipal land.
5. Unregistered subdivisions: 'Morar Legal', investments in infrastructure and assistance in legalizing properties.
6. 'Cortiços' or 'conventillos': program to upgrade collective housing and neighborhoods.
7. Low-income population in general and municipal employees: 'Vivir Carioca' program which grants loans to purchase new housing.

aspect is special legislation for 'areas of social interest' which permits the municipality to apply more flexible requirements and standards (lot size, street widths, construction standards, etc.) for the approval of unregistered subdivisions and the regularization of properties seeking legal recognition. It also permits the municipalities to act on favelas and unregistered subdivisions, accepting de facto situations and promoting their regularization.

- 1.19 The municipal programs to implement urban policy have been tailored to the different informal situations found in the city (see Table I-1). Each program has its own action strategy, team and specific investment budget. The programs are carried out by the Secretaria Municipal de Habitação (SMH) [Municipal Housing Department] and are executed in conjunction with other municipal departments working in the social area.
- 1.20 Rio complements its strategy through surveillance by the municipal police force. Established in 1994 with powers limited to surveillance, it has played a major role in preventing new land occupations and the establishment of new favelas, apart from working to halt situations such as illegal land sales and clandestine building.

2. Social policy and assistance for vulnerable groups

- 1.21 In Brazil in general and in Rio de Janeiro in particular, the social response to the needs of children at risk stresses programs that act on the **causes** of social problems and seek to **prevent** them. The challenge is to respond to crises and assist children in breaking out of the cycle of poverty and social risk.

- 1.22 Through its Social Development Department (SMDS), the municipality of Rio de Janeiro has been applying a strategy to prevent and reverse the social exclusion of the most vulnerable groups – children, teens, women, older adults and the disabled – stressing family outreach and assistance for children and adolescents at risk. These programs, which are grouped into nine areas (see Table I-2), serve just 70,000 people in the groups in question, focusing on households earning less than two minimum wages. The services are mostly offered under agreements

Table I-2. Programs for the population at risk

1. Children under six, 'Rio Creche'. Educational services for children and their families.
2. From 7 to 14, 'Oficina da Criança'. Offering extra schooling, sports, art and culture and incentives for children to remain in school (family food supplement).
3. From 15 to 18, 'Rio Joven'. Involves young people in civic education, vocational training, employment, health, development, sports and cultural programs.
4. Age 18 and over, 'Trabalha Rio'. Income promotion through small loans, vocational and management training and support for microenterprises and cooperatives (with the Municipal Labor Department).
5. Street children. 'Vem Pra Casa'. Alternatives to the street to reintegrate these children into their families and schools (shelters, family support, day facilities, sheltered homes, 'Republicas') and 'Meu Lugar É Aqui' which offers financial support from mentors.
6. Poor families 'Rio em Família'. Promotion and support for needy families based on preventive, supportive and welfare actions to reduce poverty.
7. Children and families at extreme risk 'SOS Cidadania'. Emergency actions to meet immediate needs.
8. Older adults 'Rio Experiente'. Social, family, nutritional and recreational support for needy older adults.
9. The handicapped 'FUNLAR'. Offers assistance for this group.

with NGOs and also through the network of Centros Municipales de Atendimento Social Integrado (CEMASIs) [municipal social assistance centers], municipal schools and community spaces (churches, community centers).

- 1.23 Most of SMDS' efforts are targeted to: (i) assistance for 36,780 children under four at creches and daycare facilities; (ii) school enrichment programs for 20,000 children between the ages of seven and 14; (iii) support for 5,000 youngsters between 14 and 21 under the 'Rio Joven' program; and (iv) distribution of 15,000 food baskets conditional upon children remaining in school, giving priority to about 600 households headed by women and beneficiaries of other programs. Although important, these efforts are clearly not enough, since they cover less than 20% of the poor in these age groups in Rio.
- 1.24 The SMDS has developed quality standards for assistance that are being routinely used in supervising its services and programs. However, they are still in the process of being applied across-the-board to services, through training in supervision offered by the regional coordinators. These activities include the introduction by the SMDS of the Sistema de Vigilância Alimentar e Nutricional (SISVAN) [food and nutrition monitoring system] as part of stage one of the Favela-Bairro program. The introduction of SISVAN and parallel nutritional education activities in childcare facilities supported by the municipality has made it possible to evaluate the nutritional condition of some 3,500 children to date.
- 1.25 The role played by the Conselho Municipal dos Direitos da Criança e do Adolescente (CMDCA) [Municipal Children's and Adolescents' Rights Council], an independent agency with the mandate of promoting integrated public and private actions to overcome social exclusion, is worth underlining. The council administers the Fundo da Criança e do Adolescente (FCA) [Child and Adolescent Fund] which is the only eligible recipient of federal tax-deductible donations to finance activities for this group. The CMDCA is one of several interfaces between the SMDS and civil society for defining public policies and implementing programs.
- 1.26 An evaluation of the experience of the SMDS in implementing its policies and programs points to the need to: (i) perfect its tools for focusing, based on more objective eligibility criteria; (ii) improve linkage between its programs by eliminating duplication and over-positioning among them and with the social programs of other municipal departments; (iii) provide better training for its personnel in applying quality standards for assistance for beneficiaries; and (iv) systemize its program monitoring and evaluation processes. These priorities have been included in the present operation and in the municipality's social policy strategy.

3. Job and income promotion strategy

- 1.27 In the context of the labor situation described earlier, the Secretaria Municipal do Trabalho (SMTb) [Municipal Labor Department] has based its response on focused policies that are coordinated with other sectors involved in local development, stressing: (i) increased education for the economically active population (adult literacy and continuing education through video-based teaching techniques) which has been shown to be highly effective in helping people to find work; (ii) job training or retraining; (iii) intermediation in labor supply and demand; and (iv) technical assistance for microentrepreneurs, microcredit, and promotion and support of cooperatives.

E. Bank country and sector strategy

- 1.28 The Bank's strategy in Brazil stresses the following: (i) promoting the reform and modernization of the federal and lower levels of government; (ii) supporting the process of economic liberalization and modernization of the productive sectors; and (iii) addressing the problem of social inequity and poverty. The present program focuses mainly on the third priority, through investments in the poorest neighborhoods and social services for the very needy. Investments in reducing social inequity and promoting human capital, in addition to vocational training services, will help to boost the competitiveness of the city's economy and improve the investment climate and quality of the local workforce.
- 1.29 Priorities in the Bank's urban strategy (OP-751) include improvements in urban infrastructure and basic services for city dwellers, particularly the poor. To that end, the Bank has been significantly stepping up its involvement in barrio improvement programs.³ These projects have been demonstrating how to meet the needs for basic services of the large contingent of urban poor in a cost-effective manner. The Bank seeks to respond to the growing demand for projects to improve barrios and reduce social risk, which have evolved in the methods they use for focusing, community involvement, and the integration of infrastructural and social components.
- 1.30 The Bank's experience with programs to assist children at risk,⁴ which includes assistance for 10,000 children and teens in Rio de Janeiro, offers a vantage point on the factors that contribute to success: (i) a **preventive and comprehensive** approach targeted to the community and families of children at risk; (ii) the

³ The most recent are: AR-0058, municipal social investments; AR-0163, barrio improvement and serviced lots; CH-0032, serviced lots and barrio improvement; BR-0273, barrio improvement *Habitar Brasil*; BR-0210, favela improvement in São Paulo; BR-0182, urban improvement in Rio de Janeiro; BO-0008 support for housing policy; and UR-0123, program to integrate informal settlements.

⁴ Including the program to assist children in especially difficult circumstances in Rio de Janeiro, ATN/SF-4237-BR; similar programs in Salvador, Recife, Fortaleza, San Luis, Teresina and Campinas, ATN/SF-4575-BR to ATN/SF-4579-BR; the 'Curumin' project in Minas Gerais and Rio de Janeiro; the program to assist children in difficult circumstances and the program to assist vulnerable groups in Argentina (996/SF-AR, 1021/OC-AR), among others.

importance of proactive measures for **social communications**, intended to change society's attitude toward children and other groups at high risk and the attitudes of the groups themselves regarding their own potential; (iii) the priority that should be given to the specific needs of **girls** in risk situations; and (iv) adequate attention to the development of the **institutional capacity** of participating civil society organizations, with a view to assuring the technical, managerial and financial **sustainability** of their programs. These aspects are stressed in the design of the program and of the specific actions targeted to the most vulnerable groups to be assisted.

II. THE PROGRAM

A. Objectives and description

- 2.1 The objective is to improve the quality of life of low-income groups living in informal areas in the city. Basic infrastructure and social services will be provided and the beneficiaries' properties will be regularized, integrating these areas socially and urbanistically into the fabric of the formal city
- 2.2 The projects to urbanize favelas and unregistered subdivisions will benefit 52,000 families (about 206,000 people) residing in 52 of these areas. A further 6,000 families (23,000 people) will be assisted under programs to regularize subdivisions. Close to 14,000 people residing in these settlements will benefit directly from social welfare programs and another 84,000 will be the beneficiaries of job and income initiatives.
- 2.3 The selection criteria for the favelas were defined when stage one of the program was prepared (Table II-1). The preselection limits size to areas with between 500 and 2,500 households, not located in zones at extreme environmental risk, areas that cannot be urbanized, or environmentally protected areas.
- 2.4 In stage one, a list of priority favelas was prepared, giving the highest weight to poverty and cost-efficiency criteria. The list has been maintained, with small adjustments agreed upon with the Bank, and will serve to prioritize the favelas in stage two. A similar procedure was used for unregistered subdivisions.

Table II-1. Selection criteria

Weighted system that assigns points for the following factors:

- a. Poverty level. Indicator composed of the percentage of children under four in households headed by women, income of the heads of households, and percentage of illiterate heads of households.
- b. Cost-effectiveness. Cost per family to remedy sanitation and drainage problems in the settlements.
- c. Strategic dimension. Complementarity with other projects, community participation/mobilization, physical layout of the favelas.

B. Program description

- 2.5 Stage two of the program will finance integrated improvement projects in favelas and unregistered subdivisions in the municipality of Rio de Janeiro, combining investments in infrastructure with social development actions. The program includes the following components:

1. Integrated urban development (US\$211 million)

- 2.6 Will finance basic infrastructure, urban services, community development and property regularization in the two types of settlements preselected for the program. Initially, US\$196 million will be allocated for favelas and US\$15 million for unregistered subdivisions, which may be adjusted depending on the dynamics of program execution. Integrated urban development includes the following types of works and services.
- 2.7 **Infrastructure:** drinking water, sanitary sewers, storm drains, roads, electricity and public lighting, environmental protection (planting trees on streets and forestation to control erosion and for land stabilization), trash collection (support posts, containers and equipment for trash collectors), social equipment (community centers and childcare facilities), public squares and sports areas, resettlement (new housing, compensation or the purchase of properties).
- 2.8 **Community development:** actions to promote community participation during the planning, implementation and consolidation of projects. Includes financing for mobilization and organization to permit communities to take part in identifying and designing projects and training for project follow-up (use and maintenance of sanitary and social infrastructure, environmental protection, trash collection system, etc.). Also includes post-works monitoring to be performed through the installation of temporary municipal advisory posts in the favelas, where multi-disciplinary teams from the city will provide technical assistance for communities in urban development, architecture (for the approval of housing improvements and expansions), credit for materials, social services and other aspects, during the consolidation stage of the new barrios.
- 2.9 **Property regularization:** includes technical and legal assistance to regularize the situation of properties in the favelas and unregistered subdivisions. Will finance the preparation of property rolls, urban development plans and other technical elements needed to register the properties in the municipality, as well as legal assistance and general counseling for property owners on how to have their properties included in the property register.

Table II-2. Property regularization process

The process begins with the identification of areas to be set aside for public use (access roads and common areas) and individual properties. A rectification plan is then prepared for each zone. All the program areas have been designated 'areas of special social interest', which facilitates approval of the plans by the Municipal Urban Development Department (SMU). Once the plans are approved, thus legalizing the areas, the individual boundaries of each lot and the buildings on it are identified. Once they obtain this official document, owners can apply for regularization and registration of their properties at Property Registration Offices.

2. Assistance for children and teens at risk (US\$25.5 million)

- 2.10 The purpose is to facilitate the physical, psychological and social development of children and teens under 18 living in the settlements that benefit from the program. Innovative initiatives to improve the quality, coverage and cost-effectiveness of services to prevent and reduce the different risk situations identified for this group will be encouraged and financed. Projects for prevention and comprehensive assistance for children under 14 and for specific high-risk groups will be eligible, giving priority to children under six, single mothers with limited educations, and children and teens who have been excluded from the education system owing to difficulties in school or because they work.
- 2.11 The preventive actions to be financed under the projects include: (i) **care for children under four** provided by *childcare centers*, nurseries and special centers that stress stimulation and early psychomotor development and include meals, nutritional monitoring and health care and by *mother-caregivers (crecheiras)* who operate mini-nurseries out of their homes or at other places, with financing provided to train them in hygiene, nutrition, child development and health care, and for the equipment (educational toys) and materials necessary to care for groups of small children; (ii) **assistance for preschoolers between the ages of four and six**, which includes educational, artistic, cultural and sports activities to supplement classroom education for children with specific needs (e.g. delayed psychomotor development, malnutrition); (iii) **school retention programs for children aged seven to 14** involving promotional activities and family education, educational reinforcement (tutoring, help with homework), cultural education and sports; and (iv) **assistance for children at high social risk**, including educational and welfare actions to prevent teen pregnancy, assist disabled children, establish mutual-help networks, provide social support for families at risk, psychosocial assistance, shelters, family reintegration and vocational training for children involved in drug addiction, prostitution, delinquency or domestic violence.
- 2.12 The services will be provided by trained CSOs and eligible municipal agencies.⁵ Organizations will be selected on a competitive basis, defining the types and quality levels of the desired services in advance and studying the proposals presented, which must meet the minimum criteria regarding content and quality for each type of service (paragraph 3.19). The impact will be evaluated in terms of concrete improvements in the situation of the beneficiaries and user satisfaction with the services received.

3. Job and income promotion (US\$9 million)

- 2.13 The purpose is to improve the technical skills and competitiveness of residents in the areas given priority by the program, thereby enhancing their ability to obtain

⁵ In the latter case, the financing will only cover the additional costs of equipment and third-party services contracted by them.

work and earn income. The actions that the Municipal Labor Department has been successfully carrying out will be expanded, including: (i) *specialized training*, grants for specific training courses, technical assistance for self-employed professionals and microentrepreneurs; (ii) *support for the management of productive units*, particularly equipment and technical assistance for cooperative enterprises; and (iii) *continuing education*, including adult education programs (based on video courses monitored by instructors), which will cover literacy classes and primary and secondary education. The mix of activities will be defined based on specific studies of demand in each community.

4. Institutional strengthening (US\$4.5 million)

a. Monitoring and evaluation (US\$1.8 million)

- 2.14 The *monitoring system* for stage one of the program is already in operation and will be adapted and expanded in the new stage. The aim is to evaluate the real benefit-cost ratio, social impact and sustainability of the actions carried out under the program. The system is based on market studies, field data and surveys of beneficiaries before and after the projects, which will be compared with the situation in nonbeneficiary areas. The same basic principles governing the evaluation in stage one will be maintained. The evaluation is performed at three times (prior to the intervention, six months after its completion and during the ex post evaluation of the overall impact of the program). The information obtained from coordinated analysis in the communities can be used to define a minimum set of baseline indicators for monitoring and evaluating stage two of the program.
- 2.15 The evaluation will include studies to verify the efficiency and impact of the actions as compared with the specific objectives, particularly for the new social services (see the indicators in the logical framework, Annex II-1). Studies will be conducted of the real estate market in the favelas and unregistered subdivisions and to follow up on the beneficiaries of the different program activities. The impact and process indicators include: satisfaction of the public and users of the services, ease of access to urban and community services, coverage of immunization and nutritional monitoring, employment rates, follow-up on the graduates of training programs and other measurements of impact on income, school retention rates and performance of beneficiary children, etc.

b. Studies, training and technical assistance (US\$900,000)

- 2.16 Study of illegal urban settlements. A study will be conducted to support municipal actions pertaining to informal settlements. It should describe the types and locations of the main forms of illegality regarding land subdivision, use and occupation city wide. This information will be included in the city's geographic information system and used to design strategies and provide technical support for proposals to adjust

the legislation and make it more flexible. The end goal is to reduce the incidence of illegal housing and properties in the city.

- 2.17 Training. Training will be offered to municipal employees of the Departments of Housing, Social Development and Labor, in aspects related to the execution, management and quality of social projects, applied engineering and others. Support will also be provided for visits by technical experts to localities where experiences of interest to the program are being carried out.
- 2.18 Technical assistance. Is intended to improve the internal management and control systems of the SMDS, developing programs that use innovative management techniques (execution through CSOs) and administering a network of decentralized units. Technical assistance will provide the SMDS with management tools, control systems and personnel training. Support will also be given to community organizations and NGOs in the form of technical assistance and management tools, with a view to bolstering their technical capacity and project management and fund-raising abilities.

c. Social communications (US\$1.8 million)

- 2.19 This subcomponent will publicize the program in beneficiary communities and among the public at large. Information will be provided on progress in the projects and the services offered by the municipality to foster community participation. Educational materials and supplementary information will be distributed on the activities promoted by the program. Fund-raising for community organizations, CSOs and the Child and Adolescent Fund will also be promoted.

C. Special aspects

1. Methodology for community analysis and participation

- 2.20 One of the novel aspects of stage two of the program is the preparation of *integrated social action plans* for each community, which will consolidate and form the basis for programming and monitoring social actions. The plans will be drawn up in parallel with the plans for physical intervention, on the basis of coordinated diagnoses in the program's three areas of action (social development, labor and urban development) and extensive consultation with the community to identify its main social demands and needs. Lines of social action will then be established that permit interaction and linkage among the components, facilitating their monitoring.
- 2.21 Another relevant aspect is the extension of the formal project cycle, which will include the operation of urban advisory posts. They will provide technical assistance on legal aspects, construction, property regularization, maintenance of the urban infrastructure which is the responsibility of other municipal departments, mechanisms for supervision and maintenance of the equipment installed and

assistance on legal aspects, construction, property regularization, maintenance of the urban infrastructure which is the responsibility of other municipal departments, mechanisms for supervision and maintenance of the equipment installed and education for environmental conservation, as important elements in the consolidation of the new neighborhoods.

2. Trash collection and urban maintenance

- 2.22 The urban services provided in the favelas have been adapted to their particular topography and accessibility. Trash collection is based on the use of small plastic containers that can be easily transported from places close to the houses to consolidation centers in the communities. Compactors are located there which are replaced every two or three days by the Companhia de Limpeza Urbana (COMLURB) [Urban Sanitation Company]. The main feature of this successful model is that the trash is collected by people contracted by the community association from among the local residents. This model will be adopted for all the communities and will also be used for the maintenance of the water and sewer systems, community tree planting and other urban maintenance services.

D. Cost and financing

Table II-3
Cost table
(US\$ millions)

Categories	IDB/OC	Local	Total	%
1. Engineering and administration		23.0	23.0	7.7
1.1 Projects		7.0	7.0	
1.2 Management support		4.0	4.0	
1.3 Works supervision		12.0	12.0	
2. Direct costs	178.2	71.8	250.0	83.3
2.1 Integrated urban development	166.7	44.3	211.0	
2.1.1 Favelas	157.7	38.3	196.0	
2.1.2 Unregistered subdivisions	9.0	6.0	15.0	
2.2 Assistance for children and teens	8.5	17.0	25.5	
2.3 Job and income promotion	3.0	6.0	9.0	
2.4 Institutional strengthening	-	4.5	4.5	
2.4.1 Monitoring and evaluation	-	1.8	1.8	
2.4.2 Studies/technical assistance	-	0.9	0.9	
2.4.3 Social communications	-	1.8	1.8	
Subtotal	178.2	94.8	273.0	91.0
3. Financial costs	1.8	25.2	27.0	9.0
3.1 Interest		22.2	22.2	
3.2 Credit fee		3.0	3.0	
3.3 Inspection and supervision	1.8	-	1.8	
Total	180.0	120.0	300.0	100.0

III. PROGRAM EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The borrower will be the Municipality of Rio de Janeiro, which will be responsible for the entire local contribution. The Brazilian government will be the guarantor of the operation. The program executing agency which will answer to the Bank will be the Secretaria Municipal de Habitação (SMH) [Municipal Housing Department] assisted in its financial management the Secretaria Municipal de Fazenda (SMF) [Municipal Finance Department] through the latter's External Resource Advisory Office. The Secretaria Municipal de Desenvolvimento Social (SMDS) [Municipal Social Development Department] and the Secretaria Municipal de Trabalho (SMTb) [Municipal Labor Department] will be responsible for executing specific components in their areas of expertise. Other municipal departments and public corporations will contribute technically to execution and/or will operate the services introduced by the program (public lighting, trash collection, tree planting, etc.).
- 3.2 This structure and the responsibilities of the participating agencies will be made official in a **municipal decree**, which is one of the conditions precedent to the first disbursement. The other conditions are approval of the **Operating Regulations** agreed upon with the Bank (Annex III-1) and **signature of an agreement between the borrower and the Companhia Estadual de Águas e Esgotos (CEDAE)** for the operation and maintenance of the local systems built under the program.

B. Departments participating in the program

1. Municipal Housing Department

- 3.3 The SMH was established in 1994 with the mandate of carrying out the municipality's subsidized housing programs and policies. The task is a large one and the SMH manages an annual investment budget of US\$140 million (1998). This total includes execution of stage one of the present program and other programs carried out with own funds and loans from national financial entities such as Caixa Econômica Federal (CEF) [Federal Economic Fund]. Its performance of these activities has been very good.
- 3.4 The SMH currently has 244 employees, including a professional team of 124 with extensive experience in favela improvement, community participation, resettlement, land regularization and financing for housing, etc. The department is organized into five offices (works, programming, project monitoring-up, community and emergency actions and promotion). Specific projects are assigned to multidisciplinary teams composed of professionals from these offices who form program management teams. This matrix structure has produced good results, allowing for suitable use of personnel and management control.

2. Municipal Finance Department

- 3.5 The SMF will be responsible for financial execution of the program through its External Resources Advisory Office. The office has been performing these functions satisfactorily in the first stage of the program. They include general financial management, coordination with the Bank in financial aspects (accounting, disbursements and payments, account administration) and management of municipal budget allocations. This task, which will be expanded in stage two on account of the incorporation of the SMDS and SMTb as executing agencies, will be supported by a firm that specializes in project management.

3. Municipal Social Development Department

- 3.6 The SMDS delivers its services through a decentralized network of 10 regional offices, 26 municipal centers for integrated social assistance (CEMASIs), 320 childcare facilities (attended by 25,000 children) and four multi-purpose centers. Although it has 1,400 employees of its own, its strategy focuses on cooperation with CSOs in providing many of its services (see paragraphs 1.22 and 1.23) under the department's supervision. Each regional office has a management team of 15 supervisors in different specialties (psychology, social work, nutrition, pediatrics) who regularly visit the CEMASIs and associated CSOs to verify the quality of the services provided. To attend to the new program, it will be necessary to add 50 new supervisors, at an additional cost of about US\$300,000 a year.
- 3.7 The SMDS has a related agency – the Fundo Rio – which was created to facilitate raising and managing external funding, handling its own resources and administering SMDS agreements.
- 3.8 To operate this structure, the SMDS has an annual budget of about US\$51.6 million, including the resources of Fundo Rio. With support under stage one, the SMDS has bolstered its internal accounting and control systems. However, since its staff is not highly qualified, the department will systemize and strengthen its human resource policies and training.
- 3.9 The program will increase the coverage of SMDS services by 24%, introducing improvements in the management of different activities, outsourcing of services, decentralization of supervision and ex ante evaluation tasks, and the establishment of a central quality control system. This will be complemented by changes in the way in which service providers account to the department, through ex post reviews of expenditures, which will simplify the process and ensure a normal flow of funds to the executing agencies.
- 3.10 A study performed in 1998 of the quality of childcare services and other services operated or financed by the SMDS led the department to systematically introduce minimum quality standards as part of its routine supervision. The guidelines are

adequate and their implementation, which is still under way, will be speeded up as part of the present program. Consolidation of this process is closely linked to the training and human resource policy promotional activities planned under the program (paragraph 3.8).

- 3.11 The SMDS also plays a role in the social macrofunction. This municipal coordination strategy seeks to step up the actions of the departments working in the social area (Social Development, Health, Education and Housing) and will operate on the local level, through regional committees composed of representatives of the municipal departments in question, civil society organizations and private enterprise.

4. Municipal Labor Department

- 3.12 The SMTb was established in January 1997 with the mandate of implementing a job and income policy for workers in the city, seeking to make federal government instruments (unemployment insurance, vocational education, marketing assistance and credit for production) compatible with the local strategies promoted by the municipality. In its short life, the SMTb, which has a staff of 101, 39 of whom are senior professionals, has successfully implemented programs to boost the competitiveness of the poorest workers, including continuing education, vocational education, workers' network, labor intermediation, etc., in close cooperation with the private sector and NGOs specializing in the labor area. Its third-party operated systems for monitoring, evaluation and financial control have been examined and are considered to be adequate and effective.

5. Support for program management

- 3.13 To support program execution, a consulting firm specializing in managing investment programs that use external funds will assist the three departments. The activities to be carried out include operating the system to control and monitor program contracts and projects. The SMH will continue its practice of contracting firms to supervise works, to support its staff in this activity.
- 3.14 It is worth noting that all the departments are carrying out the program with their line structures and have not created special units, which facilitates the institutionalization of their new functions.

C. Municipal finances

1. Budget performance 1994-1999

- 3.15 The municipality's *current income* grew by close to 63% between 1994 and 1998. The main factors that contributed to this result include price stabilization in the Brazilian economy, tax administration measures and an increase in federal transfer payments under the Fundo de Desenvolvimento de Ensino e Valorizaco do

Magisterio (FUNDEF) [Fund for Education Development and Teacher Recognition] since 1998. Municipal income remained stable in 1999. *Municipal tax revenues* have grown sharply since 1994 (initially by 8% a year and subsequently by 5%), thanks to the higher tax on services which has become its main source of income. The urban property tax (IPTU) has also grown thanks to changes in its definition (including the urban sanitation charge), reform of the Municipal Tax Law and work currently under way on the property roll, which has been expanding the tax base. The municipality is carrying out a program to improve fiscal productivity, financed by the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) [National Bank for Social and Economic Development], which stresses the intensive use of electronic information to support tax inspection and collection.

- 3.16 Growth in the city's *current expenditures* did not outstrip its income, which permitted it to generate current surpluses in each of the years under analysis. The average positive current balance from 1994-1996 to 1998 was R\$335 million a year. *Personnel costs* have risen, but continue to be below the limit of 65% of total expenditures established in federal legislation. *General operating costs* have increased on account of the new responsibilities shouldered by the municipality, such as the operation of federal hospitals, spending on education from transferred funds and growth in social services.
- 3.17 With regard to its debt, the municipality of Rio de Janeiro was the first to avail itself of the facility established under Provisional Measure 1891-5 of June 29, 1999, whereby the federal government has refinanced its entire debt in securities (R\$2,650 million) and part of its contractual debt (\$340.7 million). Under the arrangement, the debt in municipal bonds (average three-year term) was replaced by a 30-year loan from the federal government, with real interest of 9% a year, limited to a commitment of up to 13% of the city's real liquid income.

Table III-1
Cash flow of the Municipality of Rio de Janeiro (1994-1999)
(in thousands of constant reais at July 1999) (US\$1=R\$1.8)

Item	Year					
	1994	1995	1996	1997	1998	1999 Forecast
Starting balance (A)	567,03	1,144,53	1,314,57	264,75	244,72	483,21
Current income (B)	1,971,79	2,476,52	2,716,49	2,774,41	3,224,67	3,531,20
Municipal taxes	1,285,68	1,529,72	1,666,49	1,752,00	1,844,39	1,786,40
Current transfers	668,86	910,54	979,05	945,11	880,48	882,80
Other current income	17,2	36,26	70,96	77,29	499,80	862,00
Current expenditures (C)	1,493,26	2,067,59	2,594,59	2,436,19	3,006,30	3,299,40
Personnel and commitments	1,167,00	1,477,44	1,828,17	1,751,75	2,019,61	1,980,50
Other operating costs	283,27	524,81	703,41	602,48	896,95	1,128,70
Debt service	43,0	65,34	63,01	81,96	89,75	190,20
Current surplus/deficit (D)=(B)-(C)	478,53	408,93	121,90	338,22	218,37	231,80
Capital income (E)	58,7	54,61	35,20	68,64	146,14	122,00
Capital costs (F)	214,72	718,83	1,362,43	601,77	446,54	468,60
Investments	198,22	690,26	1,319,41	553,35	393,91	415,30
Repayment of contractual debt	14,1	35,86	36,77	38,00	40,98	43,60
Debt refinancing	2,	(7,28)	6,26	10,42	11,64	9,70
Capital surplus/deficit (G)=(E)-(F)	(155,96)	(664,23)	(1,327,23)	(533,13)	(300,39)	(346,60)
Off- budget income	0,	0,00	67,48	114,87	48,23	
Financial income (H)	254,93	425,34	88,03	60,01	272,28	114,80
Available balance (J)=(A)+(D)+(G)+(H)	1,144,53	1,314,57	264,75	244,72	483,21	483,21

- 3.18 The municipality's financial situation is solid and the outlook is good. The main concern is future pension commitments, which the city is addressing by boosting the municipal retirement fund. The debt situation has been stabilized and the municipality is in a position to cover its debt with the Bank and its other current operations.

D. Analysis criteria and project cycle

- 3.19 The projects eligible for financing will be assessed and ranked in order of priority in function of technical evaluation criteria agreed upon with the three participating departments, which are described in detail in the Operating Regulations. They include: (i) for the *integrated urban development component*, a maximum investment of US\$4,500 per family, prior approval from the community, inclusion of means that assure continuing operation and maintenance and prior legalization of the ownership of the land to be used for works; and (ii) for the *child and adolescent assistance and job and income components*, consistency with the integrated social

action plan for the respective favela or subdivision, presentation of all the elements that will permit effective evaluation (e.g. objectives, detailed description of activities and methods, definition of the necessary funds and timeframes, monitoring and evaluation indicators), observance of the maximum unit costs of assistance per beneficiary,⁶ and compliance with the quality standards defined by the SMDS, such as the methods used for psychomotor stimulation and for dealing with street children, etc.

- 3.20 The project cycle for interventions in each favela and subdivision will have the following stages:

Table III-2. Project cycle

Integrated urban development component	Assistance for children and adolescents	Job and income component
Promotion and preinvestment stage		
1. Selection of favelas and unregistered subdivisions to be assisted each year, based on program criteria.		
2. Visits to the settlements to identify valid interlocutors to inform the community about the scope of the program and establish formal channels for communication, participation and programming of the different activities.		
3. Socioeconomic analysis of the selected communities and preparation of integrated social action plans reflecting the social programming of the three departments (SMH, SMDS and SMTb). Presentation and discussion with the community.		
4. Analysis of the technical feasibility of the urban development project and legal solution for property regularization.	4. Based on the social action plans, preparation of terms of reference to contract social service providers, in accordance with a preestablished menu.	
5. Based on the technical and legal prefeasibility study, preparation of terms of reference for the preinvestment studies, invitations to prequalified firms and selection by PLANRIO.		
6. Formulation of feasibility studies and final designs for the construction of civil works, installations and procurement of basic equipment for the settlement in the stages of: (i) selection of minimum-cost technical alternatives; (ii) technical, economic, financial, environmental and institutional feasibility; and (iii) final designs and bid documents.	5. Classification of proposals by ad hoc teams at the SMDS regional offices for the respective component and by the SMTb team, both based on the criteria established in the technical fiches for each type of intervention. 6. Report evaluating the proposals by the coordinating units of each department. Bank nonobjection.	
7. Economic, financial, technical, environmental and institutional evaluation of the projects. Bank nonobjection.		
8. Start of the activities to formalize ownership in the settlements.		

⁶ US\$ per beneficiary/month: childcare facility US\$110, home childcare giver US\$34, children from four to six US\$66, children from seven to 14 US\$59, street children US\$440, children at extreme risk US\$312.

Integrated urban development component	Assistance for children and adolescents	Job and income component
Execution stage		
9. Bids for civil works, installations and equipment for each of the settlements. Evaluation and selection of bids with support from the management firms contracted to supervise the works.	7. Signature of agreements with the CSOs selected to provide the social services.	8. Signature of agreements with the agencies selected to carry out the job and income programs.
10. Contracting, execution and receipt of the works, with support from the management firms. Supervision and participation by technical representatives of sector agencies responsible for operating and maintaining the services.	8. Execution of projects to assist minors by CSOs, under supervision of the SMDS regional offices, with quality control by the central unit.	8. Execution of job and income-creation projects under the supervision and control of SMTb.
11. During execution of the works, continuation of advisory services for families on regularization of their properties.		
Post-works and evaluation stage		
12. Operation of the SMF's urban and social assistance posts to register properties in the property rolls.		
13. Performance of follow-up, monitoring and evaluation activities, based on the systems established.		

E. Procurement

1. Goods and services

- 3.21 In accordance with Bank policies, international competitive bidding will be used when the estimated cost of the contract is US\$5 million and up for works and US\$350,000 and up for goods and related services.

2. Consulting services

- 3.22 Consulting services will be selected and contracted in accordance with Bank procedures, as established in Annex C of the loan contract. International competitive bidding will be required for contracts worth more than US\$200,000 equivalent. To contract the agencies that will deliver social services under the children and teens and jobs and income components, annual prequalification will be used by preference, and prequalification by project, area or set of projects will be used by way of exception, in accordance with the procedures established in Annex C, except for negotiating the financial proposals, since the services have a preestablished fixed price. This arrangement is provided for in policy GM-1679.
- 3.23 To carry out vocational training under the job and income component, the SMTb will qualify and prepare a list of educational establishments that offer the technical courses identified by the program and will give the beneficiaries vouchers to pay for the courses offered by the establishments on the list.

3. Ex post reviews

- 3.24 Given the large number of goods, works and consulting services that will be required for the program and with a view to streamlining execution, it is recommended that the Bank's prior nonobjection be required only for contracts for works worth over US\$1.5 million, goods and services over US\$100,000, individual consulting contracts over US\$50,000 and consulting firm contracts over US\$100,000.
- 3.25 The Bank's Country Office in Brazil will perform an ex ante review of the first five contracting processes for each type, and afterwards will perform ex post reviews of samples. The executing agency will submit a list giving a breakdown of the payments made accompanied by the disbursement requests and will keep the supporting documentation for subsequent examination by the Bank and independent auditors.

4. Revolving fund

- 3.26 Given the nature of the program and the variety of actions to be financed, it is recommended that a revolving fund equivalent to 5% of the loan be established.

F. Disbursement and execution schedule

- 3.27 The loan will be disbursed in four years (see Annex III-1). Bank funds will be deposited, on the request of the SMF, in a special account in the Caixa Econômica Federal (CEF) and, after conversion into local currency, will be transferred to the program's account in the CEF, where the SMF will open another account to deposit the local counterpart. Disbursements will be made on instructions by the SMH to the SMF which, in turn, will instruct the municipal treasury to pay suppliers. The exception will be the component to assist children and adolescents, whose resources will be transferred to Fundo Rio. The latter will make advance payments to the CSOs, which will be justified by management reports. The CSOs will maintain accounting records and files for subsequent review by the SMDS and the Bank.

Table III-3. Disbursement schedule
(US\$ thousands)

Component	Subtotal	Year 1	Year 2	Year 3	Year 4
Engineering and administration	23,000	5,750	5,750	5,750	5,750
Direct costs	260,000	50,000	60,000	75,000	75,000
Financial costs	17,000	4,250	4,250	4,250	4,250
Total	300,000	60,000	70,000	85,000	85,000
%	100.00	28.33	23.33	28.33	28.33

G. Program supervision

1. Bank supervision

- 3.28 The program will be supervised by the Bank's Country Office in Brazil, which will review all the technical and financial aspects of 10 of the initial projects during execution. Special attention will be paid to compliance with the conditions established in the Operating Regulations (Annex III-1) for project preparation and execution and, in particular, to monitoring the execution and results of the social projects. Periodic inspection visits and annual program evaluations will be performed to detect and correct any shortcomings in execution.

2. Semiannual progress reports

- 3.29 The borrower, through the SMH, will present progress reports to the Bank within 60 days after the end of each semiannual period, describing the actions and activities carried out, use of funds, results obtained and targets achieved, as well as a detailed timetable of activities for the following six months.

H. Accounting and external auditing

- 3.30 The SMF will keep records of program spending, using a chart of accounts approved by the Bank. The program's financial statements will be examined each year by an independent firm of auditors and presented within 120 days after the close of the fiscal year, during execution.

I. Final evaluation

- 3.31 The final evaluation of the program will be performed by the municipality, based on the results and inputs offered by the monitoring system. This evaluation, which will be carried out after the program is completed, will be funded with loan proceeds and will examine the specific results and achievements compared to the original objectives. Twelve months after the program ends, the executing agency will use its own funds to evaluate the program's overall results, assessing its impact on marginal settlements in the municipality and the effectiveness of the social assistance policies implemented by the municipality.

J. Recognition of previous expenditures

- 3.32 The Bank may recognize as part of the local counterpart funding up to US\$9 million equivalent in expenses incurred by the municipality for the preparation and execution of eligible projects up to 18 months prior to approval of the proposed operation by the Board of Executive Directors. The Bank may also recognize as part of the loan up to US\$3 million in expenses incurred up to 12 months prior to signature of the loan contract.

IV. FEASIBILITY, BENEFITS AND RISKS

- 4.1 The feasibility of the program depends on the adequate development of its individual components, but the achievement of its objectives depends chiefly on their good interaction and complementarity. Accordingly, the analysis focussed on the components as well as on their interrelationship. The sustainability of the physical works requires social communications, guidance for urban development and property legalization. In turn, the social actions will have better results when progress has been made in the investments to reorganize the urban space in the communities. The synergy among the different components will have a multiplier effect which means that the impact of the program will be greater than the sum of its parts.

A. Technical feasibility

1. Integrated urban development component

- 4.2 The technical feasibility of this program component has been based on: (i) an analysis of the projects in stage one; and (ii) an evaluation of the sample of projects for stage two. The analysis of the projects in stage one has shown that the eligibility criteria, cost parameters and other requisites established in the Operating Regulations have been satisfactorily complied with. Meetings with the beneficiaries pointed to satisfaction in the communities where works have already been completed in aspects such as cleanliness, ease of movement, the security afforded by greater access to public services, street lighting and public squares. The potential beneficiaries are looking forward to the start of the new works and have clear demands for more social services, which is one of the objectives of stage two of the program.
- 4.3 With regard to the projects in the current sample, the favelas and unregistered subdivisions have different needs. In the favelas, the typical problems include the lack of road and sanitation infrastructure, drainage problems, absence of urban cleaning and haphazard land occupation. The unregistered subdivisions suffer from the lack of urban infrastructure, which is the main reason why they are deviant. The investments proposed in the sample are aimed at overcoming these shortcomings, using minimum-cost solutions that are tailored to the difficult topography and geology of the favelas.
- 4.4 The projects in the sample draw on the experience in applying social communications methods and executing works acquired during the four years of stage one. Some aspects have been perfected: (i) contracting three firms to supervise the works, which has increased the field presence and made it possible to adjust project designs and perform the works more efficiently and economically; and (ii) a gradual improvement in selecting contractors, seeking out those that are

best capitalized and have the capacity to work in the nontraditional environmental of the favelas.

- 4.5 The sample, which is mainly in the final design stage, is representative of the universe of projects that are potentially eligible for the program. It consists of seven projects for the urban development of favelas and three for unregistered subdivisions. These projects (see Table IV-1) will cost US\$38.4 million and US\$2.5 million, respectively, or 16.4% of total direct program investments. Preparation and analysis of the sample also served to give a more exact idea of the types of investments, problems and solutions, potential environmental and social impacts, and costs and cost structure. This last aspect was used to determine maximum spending per family.

**TABLE IV-1: Breakdown of project investments
Sample of favelas and unregistered subdivisions⁷**

Community	No. of families	Streets and storm drains	Drinking water	Sanitary sewers	Community facilities	Resettlements	Other ⁸	TOTAL	Total/ Lot (US\$)	NPV/ Lot (US\$)	IRER (%)
		(in US\$ thousands)									
Complexo Lins	2,037	3,049	384	699	1,411	1,540	2,724	9,807	4,815	88	13%
Morro dos Macacos	1,074	1,115	24	53	648	527	1,376	3,743	3,485	721	27%
Pau da Bandeira	1,503	1,561	33	74	488	727	1,709	4,593	3,056	1,203	36%
Parque Vila Isabel	1,718	1,784	38	84	570	797	1,768	5,041	2,934	1,677	47%
Vila do Céu	2,720	2,354	304	1,133	664	1,185	1,923	7,563	2,781	1,566	44%
Jacaré	2,100	1,205	274	693	535	666	890	4,263	2,030	2,464	71%
Vila São Jorge	1,482	1,253	367	-	200	532	1,026	3,379	2,280	2,110	59%
Total favelas	12,634	12,321	1,424	2,736	4,517	5,973	11,418	38,389	3,039	1,441	40%
Ana Gonzaga	1,156	648	84	414	129	308	390	1,973	1,706	1,861	45%
Cristo Redentor	103	63	25	32	45	45	77	286	2,781	561	21%
Parque Morada Anchieta	160	74	32	36	37	50	91	320	1,998	1,891	40%
Total unregistered subdivisions	1,419	785	141	482	211	403	557	2,579	1,817	1,770	42%
TOTAL	14,053	13,106	1,565	3,218	4,728	6,376	11,975	40,968	2,915	1,474	40%
%		32.0%	3.8%	7.9%	11.5%	15.6%	29.2%	100.0%			

⁷ NPV (net present value) and IRER (internal rate of economic return) calculated on the basis of the rise in property values.

⁸ Includes the cost of engineering projects, electricity, risk mitigation and solid waste collection.

2. Assistance for children and adolescents and job and income creation components

- 4.6 The process used to interest and qualify proponent organizations was reviewed and found to be satisfactory. Twenty-one projects were presented by 18 CSOs, which covered the spectrum of the different types of interventions and geographic areas. A technical analysis of these projects made it possible to adjust the project evaluation criteria, particularly with regard to: (i) the weighting system; (ii) the use of SMDS quality standards to evaluate the methodologies proposed for each project; (iii) the method of including unit costs in the weighting for each project; (iv) the evaluation of project sustainability; and (v) verification that the actions of the different organizations in the favelas or barrios to be assisted are coordinated. Generally speaking, the different proponent organizations – after initial training in project preparation techniques – demonstrated acceptable project formulation capacity.
- 4.7 For SMTb projects, the analysis consisted of verifying the methodology and the effectiveness of actions already under way. The execution methods, monitoring and cost control systems and analysis of outcomes (a study is under way to evaluate the results with regard to long-term employment and real increases in beneficiary income whose recommendations will be incorporated into the program monitoring system) were verified for the programs on the menu offered by the SMTb.

B. Economic feasibility

1. Integrated urban development component

- 4.8 About 14,000 families will benefit directly from the projects in the sample. These investments will also benefit the area adjacent to the settlements through rises in property values or through complementary works that will favor surrounding communities.⁹
- 4.9 The socioeconomic evaluation of the program included the integrated urban development of favelas and unregistered subdivisions, job and income programs and social development. A cost-benefit analysis was conducted for the first component, using increased property values in the project areas as the benefit. For the favelas, the increase in property values in the surrounding areas and the value added as a result of building on additions to existing housing, valued at the price per square meter after the intervention (less construction costs), were also considered. For the other components, the proposed interventions and actions were justified by evaluating the rationality of costs per beneficiary and the sustainability of the long-term investments.

⁹ The complementary works make urban development in the settlements technically feasible, for example, a potable water deposit or the expansion of a sewer main.

- 4.10 Property values were obtained from a survey of 143 properties recently sold in three communities that benefited from stage one and in three communities that were not beneficiaries. The results show an increase of 97% in the value per square meter in the beneficiary areas, compared with areas that have not yet benefited. For the increase in house size, 1,011 properties were evaluated and almost 30% of the houses had been enlarged by an average of 2.5 m², for a liquid increase of US\$260 per house.
- 4.11 Furthermore, 2,476 property sales in the areas surrounding the beneficiary favelas were examined and the properties were found to have risen in value by an average of 20% as a result of the nearby improvements.

Table IV-2: Estimated benefits for the sample of favelas
(US\$ thousands)

Favela	Area of intervention		Surroundings	Total
	Increased value	> Density	Increased value	
Complexo Lins	3,082	280	4,130	7,492
Pq. Silva Vale	533	48	714	1,295
Morro Macacos	1,625	147	2,177	3,949
Pau da Bandeira	2,274	206	3,047	5,527
Pq. Vila Isabel	2,599	236	3,483	6,318
Vila do Céu	4,115	374	5,512	10,001
Jacaré	3,177	288	4,258	7,723
Vila S. Jorge	1,369	124	1,835	3,328
Total	18,773	1,704	25,160	45,638
Percentage	41%	3.7%	55%	100%

- 4.12 For the unregistered subdivisions, the benefits are restricted to increased property values in the area of intervention, since neither in increase in housing size nor the rise in value of the surrounding areas are significant. The analysis indicated that the lots appreciated by 51% on average.
- 4.13 Cost data for the economic evaluation were taken directly from the basic projects and, in some cases, from the final designs prepared by companies contracted by the SMH. The benefit-cost evaluation determined that the incremental costs of operating, administering and maintaining the structures to be financed was 2% of the cost of the investment.
- 4.14 Based on these calculations, the benefit-cost analysis of the sample had IRERs ranging from 13% to 71% for the projects in favelas, and from 40% to 42% for the unregistered subdivisions. Considering an IRER of 12% as the reference value, the appropriate maximum investment per family would be US\$4,400 for favelas and

US\$3,800 for unregistered subdivisions. These amounts are compatible with experience in stage one.

2. Assistance for children and adolescents

- 4.15 Eligible entities and projects were chosen for the sample of projects to assist children and adolescents at risk,. Out of a total of 44 entities, 18 were selected to carry out projects in nine of the program's 52 favelas. The selected projects comply with the technical requisites established in the bid documents approved by the Bank, which specify quality levels for services and unit reference costs, among other requirements.
- 4.16 The average costs for each type of intervention were identified and are shown in the following table.

**Table IV-3: Sample of projects to assist children and adolescents
Cost per beneficiary**

Type	Number of projects	Beneficiaries/month	Value US\$ Beneficiary/month
Childcare facilities	(*)	(*)	92
Caregivers	3	325	28
4 to 6 years	1	200	56
7 to 14	4	630	50
Risk situation			
Drug addiction	3	220	278
Child/teen prostitution	4	710	222
Violence	4	896	278
Street children	2	80	384
Total	21	3.061	

(*) The sample does not include new childcare facilities, since the analysis of operating costs was based on the facilities financed in stage one.

- 4.17 It was also estimated that the impact on the current or total operating costs of the SMDS once all the services financed by the program are operating will not exceed 18% of its 1999 budget.

3. Job and income projects

- 4.18 Cost-efficiency criteria were used for this component. Cost-per-beneficiary indicators were identified to measure and compare the efficiency of investments in each type of activity.

**Table IV-4: Sample of job and income projects
Costs per beneficiary**

Type	Cost US\$ per beneficiary
Literacy	135
Grade 1	325
Grade 2	850
Vocational and management training	173
Establishment of cooperatives	140 (1)
Electronic information centers	16,300 (2)
Financial counseling	5

(1) Plus US\$13,160 for equipment and/or materials (2) For each center

C. Environmental feasibility

- 4.19 The analysis of the projects in stage one of the program and of the sample of projects envisaged for stage two demonstrated that they have a positive environmental and social impact, chiefly in function of: (i) the provision of water and sewerage services; (ii) the reduction of accidents linked to landslides; (iii) the resettlement of families living in risk areas; (iv) the containment of new land invasions and the clearing of protected areas; (v) reforestation; and (vi) the provision of urban cleaning and trash collection services, among others. The beneficiary communities, the general public and the media support the program's activities. There will also be a positive impact on the areas surrounding the beneficiary settlements. CESI reviewed and approved the environmental measures proposed for the program at its meeting on February 4, 2000.
- 4.20 To prepare this stage of the program, the environmental work focused on evaluating the projects in the current sample and the results of the environmental control system used in stage one. The quality of the environmental evaluation reports prepared for each project during the feasibility stage and their analysis by the Secretaria Municipal de Meio Ambiente (SMAC) [Municipal Environmental Affairs Department], which issues specific recommendations for each of them, were studied. Implementation of the environmental protection and social measures will be the responsibility of the agency that manages the program, SMH supervisors and the SMAC officials who visit the areas. When the program was being prepared, visits were paid to favelas that were already urbanized and favelas where work was still under way. Environmental management of the projects is good and the same methodology will be continued in stage two. However, the system for environmental control established in the Operating Regulations was simplified and more narrowly focused, which will improve the specificity, quality and utility of the environmental evaluation reports for each project. SMAC also evaluates the

physical projects planned for the assistance for children and adolescents and job and income components.

D. Social feasibility

- 4.21 In stage one, the program developed successful methods for community participation in project preparation, monitoring and evaluation and for the relocation of families, which will be used in stage two. The methods were formalized for stage two through their inclusion in the Operating Regulations. The procedure establishes that when basic projects are prepared, a parallel integrated social plan of action will be designed which spells out the actions for community development, environmental and sanitary education, resettlement, roads, participation and other specific social activities, based on demand in each community. The plans of action include a timetable for implementing these activities, which is coordinated with the physical schedule, human and material resources and the respective budgets.
- 4.22 Family relocation (limited to a maximum of 8% of families in each project) may be required in two situations: (i) owing to design of the urban development project itself; or (ii) for families living in environmentally-protected or risk areas.¹⁰ The solutions include compensation or voluntary relocation in the same favela, as the family chooses.¹¹ Relocation is always the more expensive and more socially complex option, and therefore the urban development plan will evaluate different alternatives to minimize that need. Compensation is only paid in the event that the family is interested in that solution. The process of family relocation complies with the requirements of the Bank's resettlement policy (OP-710).
- 4.23 The preventive services offered thus far by the SMDS for children and adolescents at risk have been well accepted by the community and it is anticipated that the new services envisaged in stage two will receive the same social acceptance.
- 4.24 **Gender.** Given the large number of households headed by women in the favelas, many of the program beneficiaries will be women. Women have participated in large numbers in neighborhood organizations in the favelas, where they have been active in prioritizing projects. At least one childcare facility has been established in each settlement in response to women's demands, and they have frequently asked for more services for preschoolers and for supplementary schooling. In households headed by men, the property deeds issued under the barrio improvement project will be in the name of both spouses.

¹⁰ Resettlement of most families is due to urban development requirements. The municipality has a program entitled *Morar Legal* which deals exclusively with families living in risky or protected areas.

¹¹ They are given the option of building a new house or buying an existing house in the settlement. If an existing building is being purchased, the Bank will only finance the equivalent of up to 60% of the estimated total price of the building.

E. Institutional feasibility

- 4.25 The municipality demonstrated its capacity to execute the physical and social investments in stage one of the program. With support from three management and supervisory firms, the SMH has completed 53 projects to develop favelas and eight to assist unregistered subdivisions. The program is a high priority for the municipality, as is demonstrated by the fact that the local counterpart has exceeded the initial figure. Each of the departments involved has experience in executing similar activities, which has been examined by the project team and is considered adequate. The aspects that require strengthening, such as training for line employees, introduction of a single financial management system and others, have been addressed in the current stage.
- 4.26 Owing to its nature, the program requires coordination among the departments involved (SMH, SMDS, SMTb). Coordinating units have already been provided for on the departmental and technical levels to facilitate program execution and coordinated action by the departments in community analysis and synchronization of the physical and social interventions in each of the beneficiary settlements.
- 4.27 As mentioned earlier, experience in stage one with in integrated urban development and assistance for children and adolescents at risk has pointed to the need to boost the management capacity of NGOs and CSOs. Technical assistance will be provided to strengthen these organizations, which should make for efficient execution of the projects they present.

F. Program sustainability

- 4.28 The public services (water, sewerage, electricity, trash collection) provided under the program will be operated and maintained by state and municipal companies – CEDAE, Rio-Luz, COMLURB – which normally operate these services and have participated in the analysis of the individual projects and in supervising their execution. With regard to water, the company is committed to charging for its services, using residential meters. The rates to be charged are consistent with Bank policy, and should cover the costs of operating, managing and maintaining the systems. Electricity consumption will also be individually metered.
- 4.29 Financing for the public services introduced under the program will take two forms: (i) for services subject to individual billing, tariffs will be collected by the companies once the works have been completed in each community; and (ii) services that are not individual (public lighting, street maintenance, drains, etc.) will be financed from the municipality's general revenues which will be boosted in each area by the property tax.
- 4.30 The financial sustainability of the infrastructure projects will be based on the regularization of ownership which will make it possible to use existing cost-

recovery mechanisms to finance urban services. As for social services, the CSOs' fund-raising capacity will be strengthened and the municipality will allocate own resources to maintain the childcare facilities permanently and the social welfare services (children up to 14) for a minimum of two years. The Child and Adolescent Fund (FCA) will be strengthened as a means of increasing financing for these and other services promoted by NGOs for the target population.

- 4.31 The sustainability of the projects and their socioeconomic impact, in particular, will depend in the last instance on community participation in local activities. Building local capacity for self-organization and social participation will be encouraged under the program's intrinsic methodology, and will entail consultation with and participation by the community in defining projects, selecting and determining the location of community equipment and operating and maintaining social services (in addition to supervising the quality of the services delivered by the agencies).

G. Focus on poor beneficiaries

- 4.32 This operation qualifies as a poverty targeted investment. The classification is justified because it will improve barrios whose residents are mostly poor. The project specifies explicit performance indicators to measure poverty reduction and improvements in social equity (see Annex II-1). The borrower will be using the additional 10% financing.
- 4.33 In addition, the selection of beneficiary communities and targeting of social measures and employment and income generation measures took place using, among other criteria, poverty level as measured by indicators of socioeconomic need (see paragraphs 1.5, 2.3 and 2.4, and Table II-1).

H. Benefits and risks

1. Benefits

- 4.34 The program will ensure that all residents of the beneficiary favelas and unregistered subdivisions (about 230,000 people) have access to water, sewer and drainage services, roads, trash collection, public squares and recreational areas, etc. The largest benefit of the program lies in its nature as a targeted public investment intended to reduce social inequities by facilitating the prevention and reduction of poverty-related risks in the most vulnerable groups (children, teens, women heads of households). Other benefits include a reduction in crime in the communities. The impact of all these actions on the quality of life and physical condition in the barrios translates into a rise in property values of close to 100% over their value prior to the project.¹²

¹² The internal rate of economic return in the sample of projects has been estimated as 40% on average.

- 4.35 The investments in human capital will increase in stage two, since their complementarity with the investments in physical infrastructure ensures that they will be effective. The component to assist children and young people will have approximately 14,000 beneficiaries¹³ and the job and income program will benefit about 84,000 people. These benefits include a significant reduction in the social and health risks to which people living in the favelas are subject, particularly children and teens, and will improve their future prospects, education and ability to find work. The program will also contribute to more cost-effective delivery of the social services offered by the municipality (education, health care, social welfare, etc.).

2. Risks

- 4.36 As in all integrated projects, coordination among the executing agencies and their capacity to implement innovative components is a concern. However, the execution methods and the operating capacity of the executing agencies have been successfully put to the test in stage one, which will minimize the institutional risks. A mechanism to coordinate the social components and the physical investments will be introduced, which will act before and during implementation of each project, broadening the channels for horizontal communication.
- 4.37 Another risk is dependency on community response for the success of the activities. The preexisting situation of violence in some communities could pose a risk to projects in specific settlements. Although the risk is remote since the possibility of being excluded from the program is an incentive for the communities to overcome these problems, if necessary, the project will postpone its actions in difficult areas or replace those areas with others where the chances of success are greater, based on the list of priorities agreed upon with the borrower.
- 4.38 Management weaknesses in civil society organizations may pose a risk, which will be allayed through specific institutional strengthening activities intended to match their management capacity to the needs of the different types of projects. The technical and administrative supervisory activities performed by these organizations will also be significantly reinforced.

¹³ Number of individual beneficiaries to be assisted during the four years of the project, with 28,500 places financed under different types of care.

LOGICAL FRAMEWORK, STAGE II OF THE PROGRAM			
Objectives	Indicators	Means of verification	Risks/assumptions
Objective			
To improve the quality of life of the low-income population of Rio de Janeiro, by increasing the availability and coverage of urban and social services in the city's favelas and nonconforming subdivisions.	Satisfaction of the population residing in the project areas with the spatial, environmental and social changes brought about by the project (>80% by the end of the program).	Surveys of beneficiaries.	<ul style="list-style-type: none"> - Sustainable economic development. - Community participation in defining and supervising the projects. - Urban controls to assure adequate population density.
Purposes			
<ol style="list-style-type: none"> 1. To improve and increase sanitation, road access and other urban infrastructure services and general security in the favelas and nonconforming subdivisions. 2. To improve the coverage and quality of services to assist children and teens at risk and their families. 3. To boost the technical skills and competitiveness of the residents of program areas in order to increase their ability to obtain work and earn income. 	<ul style="list-style-type: none"> - 75% of residents consider that living conditions in the favelas have improved with the program. - 50% of residents consider that security has improved in the beneficiary communities. - 90% of residents have street access to their houses and paved sidewalks. - Property values in the favelas has increased by at least 80% over their levels before the program. - 14,000 children and teens assisted in the beneficiary communities. - 40% of unemployed beneficiaries of the training program have found jobs on the formal or informal markets, with increases in their incomes. 	<p>Surveys of beneficiaries. Information compiled by SMH.</p> <p>SMH and GEO-RIO.</p> <p>Technical fiches or supervisory reports by SMDS and SISVAN.</p> <p>Surveys. Specific SMTb surveys.</p>	<ul style="list-style-type: none"> - Financial stability of the municipality and regular flow of funding for program execution. - Application of the agreement with CEDAE to operate and maintain the sanitation infrastructure. - Implementation of policies to reduce or eliminate drug trafficking in the communities. - High community participation in program execution. - Effective coordination among the departments responsible for general social policies.

LOGICAL FRAMEWORK, STAGE II OF THE PROGRAM			
Objectives	Indicators	Means of verification	Risks/assumptions
Components			
1. Integrated urban development			
a. Urban and social infrastructure			
(i) Basic sanitation (drinking water, sanitary sewers, storm drains).	- 56,000 families in 52 favelas and five subdivisions benefit.		
(ii) Roads, electricity and public lighting.	- 100% of residents have access to water, sewers and drainage. - 100% of the main streets and 80% of secondary streets paved. - 100% of the main streets and 60% of secondary streets have public lighting. - 100% of favelas have at least one sports area built. - 100% of favelas have the main geological risks eliminated or mitigated.	SMH supervision and annual monitoring reports. Administrative records of projects under way. Record of residents' complaints to COMLURB. Survey of beneficiaries. SMH – supervision and data from GEO-RIO.	- Effective rules and instruments for urban control. - Cooperation between the municipal and state governments in project coordination relating to land ownership and other aspects.
(iii) Social equipment (community centers, childcare centers, sports facilities).	- 100% of favelas have at least one childcare or alternative facility for children under four operating.	SMDS technical fiches or supervision reports.	
b. Community development			
(i) Community participation in planning and execution.	- 100% of families in each community are contacted and invited to participate in the program; half of them attend meetings and other community activities at least once.	Records of attendance at community preparatory meetings.	
(ii) Education for project monitoring, use and maintenance of the sanitary and social infrastructure and environmental protection and conservation.	- 75% or more residents consider that urban maintenance and cleanliness in the communities have improved.	Survey of beneficiaries.	- Formulation of specific legislation on Articles 156 and 182 of the Constitution.
(iii) Installation of community advisory posts to provide technical assistance for communities during the consolidation stage.	- Posts installed in 70% of favelas and are serving the demand for advisory services.		

LOGICAL FRAMEWORK, STAGE II OF THE PROGRAM			
Objectives	Indicators	Means of verification	Risks/assumptions
c. Property regularization (i) Technical and legal assistance for property regularization.	<ul style="list-style-type: none"> - 100% of favelas and 100% of nonconforming subdivisions are declared <i>Areas of special social interest</i>, rectification plans and public sites recognized six months after the works are completed. - 100% of households in the favelas and nonconforming subdivisions are included in the property tax register 12 months after the works are completed. 	SMH/SMU; municipal legislation. SMF: municipal property roll.	
2. Assistance for children and teens a. Assistance for children under three (i) Childcare facilities (ii) Caregivers (“mães crecheiras”)	<ul style="list-style-type: none"> - 8,300 children under three attend childcare or homecare facilities (“crecheiras”), covering 30% of potential demand. - 100% of childcare facilities provide suitable nutrition and psychosocial care for the children. - 75% of the caregivers who receive training and technical support obtain certification. 	SMDS/SIGER. Registers of caregivers. SMDS/SIGER. SISVAN. Survey of the beneficiaries. Registers of caregivers. SMDS/SIGER.	
b. Support for children 4-6 (i) Longer day for preschoolers	<ul style="list-style-type: none"> - 2,400 children from 4-6 attend for a full day, covering 18% of potential demand. 	Department of education and teacher records. Follow-up survey of the beneficiary children.	
c. Support for children 7-14 (i) School retention and tutoring	<ul style="list-style-type: none"> - 4,800 children and teens or 9% of the 7-14 age group in the communities covered. - Reduction in absenteeism and better school performance for 70% of the children covered by the program. 	Survey of beneficiaries.	

LOGICAL FRAMEWORK, STAGE II OF THE PROGRAM			
Objectives	Indicators	Means of verification	Risks/assumptions
<p>d. Support for groups at extreme risk</p> <p>(i) Special assistance for disabled children and teens</p> <p>(ii) Assistance for children who are victims of domestic violence, prostitutes or drug addicts</p> <p>(iii) Family and institutional reinsertion</p> <p>3. Job and income program</p> <p>a. Specialized training</p> <p>(i) Vocational courses</p> <p>(ii) Technical assistance for independent tradespeople and microentrepreneurs</p> <p>b. Support for management of productive units</p> <p>(i) Technical assistance for producer's cooperatives and service providers</p> <p>c. Continuing education</p> <p>(i) Adult education (literacy, primary and secondary school)</p>	<ul style="list-style-type: none"> - Integration of 50% of disabled children into community, family and social life. - 50% of children and teens identified as being at risk in each community assisted by the program - At least 50% of the children covered by the program reunited with their families. - 80% of students complete the courses; 38,916 workers covered by the training program. - 2,167 entrepreneurs receive technical assistance. - 42 cooperatives, electronic information centers and other units receive technical assistance and improve their incomes. - 6,430 workers complete the continuing education programs and receive their diplomas or certificates. 	<p>SMDS and Community Advisory Post records.</p> <p>SMDS/SIGER records. Survey of beneficiaries CMDCA records.</p> <p>SMTb records. Survey of beneficiaries.</p> <p>SMTb records. Survey of beneficiaries.</p>	

LOGICAL FRAMEWORK, STAGE II OF THE PROGRAM			
Objectives	Indicators	Means of verification	Risks/assumptions
4. Institutional strengthening a. Monitoring and evaluation (i) Surveys of user satisfaction (ii) Evaluation of job and income programs and programs to assist children and teens b. Study, training and technical assistance (i) Study on nonconforming urban situations in the city (ii) Training for employees of SMH, SMTb and SMDS (iii) Training for CSOs in project management and fund raising (iv) Technical assistance for SMDS c. Social communications (i) Informing the general public and the beneficiary community about the program	<ul style="list-style-type: none"> - Survey of beneficiaries six months after the works are completed. - Specific evaluation studies. - Study completed containing concrete proposals for reformulating municipal development procedures and/or legislation. - 100 employees trained in executing and managing social projects and applied engineering. - 60 CSOs trained; at least 40% of them are able to increase their funding by applying the techniques they learned. - Management methods and systems to control decentralized activities implemented in SMDS. - Videos, posters, publicity in the media. - Newspapers and informative and publicity materials on the program prepared and distributed in the communities. 	SMH – Annual monitoring reports. SMDS – Annual monitoring reports. SMU. Administrative reports by the departments. Evaluation report by the training agency. Financial reports of the CSOs. Reports by the social communications advisory services.	

GENERAL PROCUREMENT NOTICE- GPN
In US\$ thousands

TYPE	YEAR 1		YEAR 2		YEAR 3		YEAR 4		TOTALS
	LCB	ICB	LCB	ICB	LCB	ICB	LCB	ICB	
1. Goods and services									
1.1. Contracts for urban works	52,920	17,391	40,170	5,000	36,756	34,688	16,030	8,045	211,000
<i>Number of contracts</i>	24	3	13	1	12	4	7	1	65
<i>Average value (US\$)</i>	2,205	5,797	3,090	5,000	3,063	8,672	2,290	8,045	
2. Consulting services									
2.1 - Engineering and supervision of works (1)	7,750	800	7,750	800	3,100	800	-	800	21,800
<i>Number of contracts</i>	50	1	50	1	20	1		1	124
<i>Average value (US\$)</i>	155	800	155	800	155	800		800	
2.2 - Social services (2)	6,720	-	8,100	-	9,520	-	9,600	-	33,940
<i>Number of contracts</i>	48	0	54	0	68	0	80		250
<i>Average value (US\$)</i>	140	0	150	0	140	0	120		
2.3 - Studies and evaluation (3)	180	800	900	400	700	-	360	-	3,340
<i>Number of contracts</i>	1	1	6	1	5	0	3		17
<i>Average value (US\$)</i>	180	800	150	400	140	0	120		

- (1) Includes engineering and architectural studies for project preparation and works supervision services.
(2) Includes services such as assistance for children at risk, operation of childcare centers, adult literacy, vocational training, and technical assistance in management.
(3) Includes contracts for individual consultants to conduct studies, for communications firms and for program evaluation.

RIO DE JANEIRO URBAN UPGRADING PROGRAM (BR-0250)

BEFORE

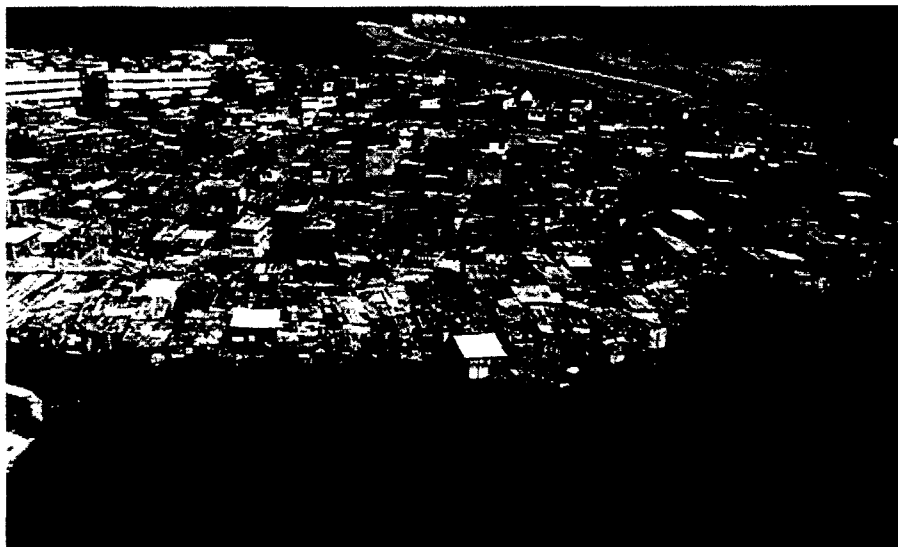


AFTER



RIO DE JANEIRO URBAN UPGRADING PROGRAM (BR-0250)

BEFORE



AFTER



PROPOSED RESOLUTION

BRAZIL. LOAN /OC-BR TO THE CITY OF RIO JANEIRO
RIO DE JANEIRO URBAN UPGRADING PROGRAM
“FAVELA-BAIRRO” –STAGE TWO

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 City of Rio de Janeiro, 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 Second Stage of an Urban Upgrading Program for the City of Rio de Janeiro, “Favela-Bairro”. Such financing will be for the amount of up to US\$180.000.000, or its equivalent in other currencies, except that of the Federative Republic of Brazil, which are part of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.