

**PROGRAM TO SUPPORT URBAN DEVELOPMENT IN PARANÁ**

**(BR-0212)**

**EXECUTIVE SUMMARY**

**BORROWER:** The State of Paraná

**GUARANTOR:** The Federative Republic of Brazil

**EXECUTING AGENCY:** Secretaria de Estado de Desenvolvimento Urbano [State Department of Urban Development] (SEDU)

**AMOUNT AND SOURCE:** IDB: US\$249 million (OC)  
Local contribution: US\$166 million  
Total: US\$415 million 1/

**FINANCIAL TERMS AND CONDITIONS:** Amortization period: 20 years  
Grace period: 4 years  
Disbursement period: 4 years  
Commitment period: 3 years  
Interest rate: variable  
Inspection and supervision: 1%  
Credit fee: 0.75%

**OBJECTIVES:** The general objective of the program is to support the municipalities of the state of Paraná in improving the quality of life of their citizens, particularly low-income groups, and to assist the government of the state in its urban project financing strategy.

To attain these objectives, the program will support: (a) the institutional reorganization of Fundo de Desenvolvimento Urbano [Urban Development Fund] (FDU) and Fundação de Assistência aos Municípios do Estado de Paraná [State of Paraná Municipal Assistance Foundation] (FAMEPAR), so as to merge the two entities into a public institution constituted under private law, which would administer public funds for municipal investment projects - under a management agreement with the state government - and assist the municipalities and their duly constituted associations; this new institution would have greater flexibility than the present FDU/FAMEPAR to secure resources on the financial and capital markets and

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1/ The Brazilian authorities have informed the Bank that they are applying for cofinancing from the OECF (Overseas Economic Cooperation Fund of Japan) for US\$83 million, which would raise the total cost of the program to US\$498 million.

would also become a facilitator for the mobilization of private savings for urban development; likewise, it would have more autonomy to: (i) allocate financial resources on the basis of efficiency criteria; (ii) oversee, evaluate, and audit the use of funds; (iii) design and introduce modern human-resource policies; and (iv) build stronger ties with the community; (b) the development and strengthening of individual municipalities, associations of municipalities, and the state agencies in charge of urban development in institutional, financial, and technical aspects in order to enhance their efficiency and expand the coverage of the services they provide; (c) improvements in the fiscal efficiency of the municipalities through perfecting the system for transfer payments from the state government to the municipalities, cost recovery, rationalization of spending, and administrative reform; (d) mechanisms to ensure that resources are allocated transparently, thereby reducing discretionality; (e) fuller participation by organized civil society in determining priorities for municipal investments and in their execution and evaluation; and (f) rehabilitation, expansion, and construction of municipal and state works whose direct beneficiaries are municipalities.

**DESCRIPTION:**

The program will consist of two subprograms, one for institutional development and strengthening and the other for investments:

- a. Institutional development and strengthening subprogram (US\$23 million), intended to boost the efficiency of the agencies responsible for designing and implementing urban development policies, and for planning, financing, supervising, and evaluating investment projects. An approximate total of 3,500 person/years of consulting services will be provided, 1,625 of them in the form of individual consulting services and 1,875 in services provided by consulting firms. The subprogram includes the following components:
  - (i) Institutional development (US\$17 million) to benefit FDU/FAMEPAR and, principally, to finance administrative reforms in Paraná's municipalities.
  - (ii) Institutional strengthening component (US\$6 million) to benefit associations of municipalities, the Instituto Ambiental do Paraná [Paraná Environmental Institute] (IAP), and the State Department of Health (SESA).

b. Investment subprogram (US\$369 million) to grant loans to municipalities and state sectoral agencies to improve the quality of urban social services, while increasing coverage and supply. The procedure for distributing funds for investment projects among municipalities would be as follows.

- Initially, 50% of the funds will be allocated on the basis of the following criteria: (i) in proportion to the urban population of the municipalities; (ii) an additional US\$1.2 million for the main cities in the development corridor (Londrina, Cascavel, Maringá, Ponta Grossa, and Guarapuava), and US\$500,000 for the secondary cities in the development corridor (Telemaco Borba, Campo Mourão, Ibiporã, Cambé, Rolândia, Apucarana, Arapongas, and Laranjeiras do Sul), based on the assumption that these cities provide services to areas larger than their formal jurisdictions; and (iii) US\$1.4 million to special areas defined on the basis of their weaker socioeconomic development.
- The remaining 50% will be distributed starting in the second half of 1997, on the basis, *inter alia*, of spending efficiency, fiscal effort, and compliance with the targets established for municipal projects and administrative and financial efficiency indicators. Additional funds will be allocated to municipalities proposing to undertake administrative reforms. The borrower, through the executing agency, will submit the methodology for distributing those funds to the Bank's satisfaction, within 12 months after the loan contract is signed.
- The initial 50% allotment will be used to satisfy the demand for investment projects in the first 18 months of execution. This should be enough time in which to devise, agree on, and make known the formula that will be used to apportion the other half.

This subprogram has the following components:

- (i) Basic services (US\$309 million) to improve and expand urban infrastructure that serves the general public, such as street lighting, residential electricity connections,

street paving, construction and repair of bridges and overpasses, urban and municipal transport terminals, reclamation of degraded areas, works to control erosion, drainage works, construction of simple drinking water systems, treatment of liquid waste, collection, transport and final disposal of solid waste, procurement of equipment, machinery, and vehicles, and rehabilitation of municipal archives.

- (ii) Targeted social services component (US\$30 million) to improve the coverage and quality of social services aimed most directly at the poor, such as day nurseries, centers to assist seasonal workers, family and child and youth welfare centers, recreational and athletic facilities, health care centers and posts, hospitals, cultural centers, libraries, and the procurement and distribution of basic medications kits.
- (iii) Component to support microentrepreneurs and small producers (US\$30 million) to improve and/or establish basic infrastructure to create new jobs and facilitate product marketing and the exchange of experience among producers. Funds will be used to construct and equip industrial and commercial buildings offering basic facilities, lime storage facilities, grain dryers, simple plants for processing farm products, slaughterhouses, and refrigerated storage facilities.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of August 8, 1995, classified this as a Category III operation. The environmental summary was approved at the committee's meeting of December 5, 1995, and made available for public consultation on December 20. The executing agency prepared and publicly released an environmental report on the program describing the environmental management system and environmental eligibility criteria.

**BENEFITS:**

The municipal development and strengthening activities are intended to achieve greater financial discipline; better distribution, allocation, transparency, and targeting of resources; and a more rational system for assigning subsidies to targeted social services projects.

The projects financed under the program will produce local services intended to improve the quality of life of communities. Coverage of those services will be broadened, particularly for low-income groups. The program is also expected to create jobs equivalent to 150,000 person/months.

**RISKS:**

The municipalities of Paraná mobilize, in the form of own resources, 25% of their fiscal potential, which is a low figure. The tax-sharing formulae for distributing both federal and state taxes are the main stumbling blocks.

Tax reform is currently being discussed in Brazil to improve the fiscal potential of the municipalities, including fiscal relations among the different levels of government. Should the reforms not be introduced in a timely fashion, the benefits of the proposed program stemming from better federal, state, and municipal fiscal relations could be affected. To minimize this risk, the program commits the participating municipalities to recover the costs of the projects financed and to achieve targets with respect to the mobilization of financial resources compatible with their potential, and provides for the FDU's funds to be allocated in response to local fiscal effort and spending efficiency. The Bank will evaluate progress in this regard at annual review meetings.

The institutional and operational weaknesses of the municipalities and their staff and structure pose problems for the management of services on the local level. The strengthening of associations of municipalities, which will provide support for the improvements in local capacity and the municipal administrative reforms envisaged in the program, should minimize these risks.

**POVERTY-TARGETING:** The proposed program is poverty-targeted, under the terms of paragraph 2.15 of the Eighth Replenishment document (AB-1704). In accordance with paragraph 2.13 of that document, the program falls into the category of operations seeking social equity and poverty reduction, since it focuses on urban development and its investments are targeted to low-income groups (paragraph 4.23).

**THE BANK'S  
COUNTRY AND  
SECTOR STRATEGY:**

The Bank's strategy and operative program for Brazil in the 1995-1997 programming cycle are fully consistent with the objectives of the Eighth Replenishment, the government's focus on systematically eliminating the causes (and easing some of the social consequences) of chronic inflation, and the need to foster

economic modernization. The main elements of the Bank's strategy emphasize the needs to: (a) promote the reform and modernization of the public sector both at the federal and subfederal levels; (b) support the process of economic opening, in part through the modernization of the productive sectors and also through the *Redução do Custo Brasil* initiative, whose objective is the rehabilitation and improvement of the nation's transport and port infrastructure; and (c) address socioeconomic inequities and poverty alleviation by increasing the effectiveness of social spending and improving the targeting of social programs. In the latter instance, special support will be given to continued decentralization of the social sector, in part through increased partnerships with the local community and civil society. At the same time, the traditional emphasis on basic sanitation and the environment are retained in the current Bank strategy.

The features of this program conform to that strategy, since it gives priority to efficiency in municipal management and financing for basic infrastructure, owing to their importance in improving the quality of life of the neediest groups and job creation. The additionality offered by the Bank through its participation in this program is to foster fiscal effort and efficiency in the investments made in basic infrastructure, which over the medium term may result in experiences that can be replicated in other Brazilian states.

**SPECIAL  
CONTRACTUAL  
CONDITIONS:**

Conditions subsequent to signature of the loan contract:

- a. Within 90 days following signature of the loan contract, the executing agency will present the Bank with the terms of reference for studies on the development of a municipal bond market, debt securitization, risk classification of municipalities, and adjustment of the formula currently used for revenue share-outs (paragraph 2.9).

Conditions precedent to the first disbursement: 2/

- a. Entry into effect of the Operating Regulations (paragraph 3.12).

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2/ During the negotiations, the borrower demonstrated that it had satisfied these conditions precedent, and it was agreed that they would not be included in the loan contract.

- b. Signature of the agreements formalizing the approval of an investment or institutional development and/or strengthening project for a municipality or one of the participating agencies (paragraph 3.12).

**Other contractual clauses:**

- a. Program monitoring: During the program execution period, the borrower, through the executing agency, is to submit annual reports to the Bank on the results of the program, within 90 days of the close of each calendar year (paragraph 3.33).
- b. Procedure for distributing funds to the municipalities: The executing agency will present the procedure to be followed in distributing funds to the municipalities to the Bank's satisfaction within 12 months after the loan contract has been signed (paragraph 3.16 b).
- c. Recognition of expenditures: Outlays of US\$400,000 equivalent for consulting services and US\$9.2 million for works will be recognized against the local contribution (paragraphs 3.44 and 3.45).
- d. Use of recoveries: The funds recovered from loans extended under the program may only be used, during its execution, to grant new loans on substantially the same terms as those established in the Operating Regulations, unless the Bank and the borrower agree to another use for such recoveries (paragraph 3.48).
- e. The loan contract will also contain the Bank's standard clauses relating to reports, auditing, inspections, procurement of goods and services, and evaluation.

**PROCUREMENT:**

The thresholds for international competitive bidding in this project will be US\$350,000 for goods and US\$5 million for works (paragraph 3.36).

**EXCEPTIONS TO  
BANK POLICY:**

- a. Service contracts: The executing agency has been using the services of UNDP since June 1995 to select, contract, and supervise individual consultants who helped to prepare this program, with satisfactory results in terms of streamlining procedures, facilitating the payment of salaries on international scales, and shortening the time required to complete the work. Based on that experience, it is recommended that, as an excep-

tion, the executing agency be authorized to broaden the current contract with UNDP to engage approximately 30 person/years of individual consulting services to assist in the institutional development stage envisaged in the program, at a cost of US\$2 million. UNDP would charge the equivalent of 3% of the value of the contract to defray its administrative costs (paragraph 3.39).

In view of the large volume of consulting services required by the municipalities and the associations of municipalities, the geography of Paraná, and the plan for decentralized execution of the program, it is recommended that the requirement for prior consultation with the Bank be maintained only for the selection and hiring of individual consultants in contracts worth more than US\$50,000 and US\$100,000 for consulting firms. The terms of reference for both cases would be approved in advance by the Bank (paragraph 3.38).

- b. **Guarantee:** The federal government will guarantee the loan, but this sovereign guarantee will cover only the repayment of the loan (including interest and fees), not the local contribution or any obligations to perform that are not by law within the purview of the federal government (paragraph 3.1).



## I. FRAME OF REFERENCE

### A. The Brazilian economy

#### 1. Introduction

- 1.1 A series of important events took place in Brazil in 1994 which should be noted at the outset. As a result of the most comprehensive elections in the country's history, a new government came to power on January 1, 1995, with a more solid basis for broad-based consensus-building than has been the case in recent years. In addition, a number of economic developments occurred that had both immediate and also longer-term implications. Of particular significance, the nation successfully implemented a remarkably innovative stabilization program (the *Plano Real*) to halt a dangerous escalation of prices. Brazil also introduced a clearly delineated development strategy that directly addresses the nation's complex social and economic problems. This combination of events and their longer-term implications set the stage for the Bank's new lending strategy for Brazil.

#### 2. Socioeconomic development challenges

- 1.2 **Price stabilization:** The need to permanently reduce the sources of high and volatile inflation remains the country's greatest development challenge. Not only is inflation one of the basic factors aggravating the unacceptable trends in income distribution and the nation's massive poverty problems, but it has contributed to serious misallocations of resources and impeded the mobilization of long-term sources of savings.
- 1.3 **Public sector reform:** Most analysts regard the public sector's deteriorating performance as the pivotal element underlying the nation's spiraling inflation since the 1980s. The complexities of Brazil's fiscal federalism make efforts to modernize and restructure the State a difficult exercise.
- 1.4 **Opening the economy and modernizing productive sectors:** The leadership role of Brazil's productive sectors (notably manufacturing) declined in the 1980s in the aftermath of the debt crisis and the escalation of inflation. The government is attempting to reverse this trend through a variety of policies, including greater support for research and development and substantially reduced tariffs on imported goods and technologies needed for industrial modernization and to stimulate competition. In this regard, Brazil's signature of the 1991 Treaty of Asunción, which created MERCOSUR, must be considered as an integral part of the nation's development strategy.
- 1.5 **Reducing inequities and poverty alleviation:** In recent years, Brazil's escalating inflation contributed significantly to a worsening of the nation's long-standing and deeply-entrenched income distribution and poverty problems. In the period from 1981

to 1990, the share of the poorest 40% of the economically active population in total income declined from 9.8% to 7.8%; at present, it is estimated that 36% of the total population lives below the poverty line. This trend appears to have slowed due to the implementation of the *Plano Real*, but it is clear that years of price stability would be required to substantially reverse the existing situation. Moreover, inflation is not the only source of inequity: other important contributors are the unequal access to basic social services, the regressive tax mechanism and the low average quality of the labor force, which in many ways reflects the deficiencies in the nation's education system.

- 1.6 The three main areas of action targeted by the government in its development strategy, highlighted below, respond directly and interrelatedly to the major socioeconomic challenges facing the country. Special attention is also drawn to the congruency of the Bank's Eighth Replenishment mandate with Brazil's emphasis on eliminating the causes of chronic inflation and its adverse effects on income distribution and poverty, and with the country's strategy of direct interventions to reduce inequities and alleviate poverty.

### 3. Government priorities

- 1.7 The government strategy gives priority to: (a) public sector reform and modernization of the State, including clearer delineation of responsibilities and accountability at all levels of government; (b) economic openness and modernization of the productive sectors, through tariff reductions and expanded participation in MERCOSUR, programs to foster deregulation, and a lowering of domestic costs that impact export competitiveness and/or increase the costs of imports (referred to as the *Redução do Custo Brasil* initiative); and (c) reduction of inequities and poverty alleviation, including continued decentralization and management reforms as well as increased partnership with local communities and civil society in the delivery of services.

### 4. The Paraná economy

- 1.8 Since 1991, Paraná has increased its industrial output in comparison to other sectors and its relative contribution to GDP has gradually recovered. Good performance of the state's economic base in recent years can chiefly be attributed to the following successes: (i) efficient functioning of the productive system based on crop and livestock farming and agroindustry; (ii) recovery of physical yields in agriculture in the state; (iii) improvement and expansion of external trade, including MERCOSUR; and (iv) rehabilitation and expansion of the state's economic and social infrastructure.
- 1.9 Despite this progress, Paraná's economic growth slowed in the first half of 1995 owing to a slump in farm prices on foreign markets,

slippage in the exchange rate, monetary policy, and high interest rates. This combination of factors caused a strong setback in earnings from the primary sector, which had an impact on other areas in Paraná's economy. The state authorities have recently defined four lines of action to be implemented between 1996 and 1999 to cushion the effects of that impact: (i) consolidation of the state's infrastructure; (ii) sustainable development; (iii) human capital development; and (iv) effective administration in the public sphere. In relation to this last aspect, the state government and civil society will act in conjunction to find resources to boost levels of productivity and competitiveness.

**B. Change in the productive structure of Paraná and its impact on the urbanization process**

- 1.10 The 1991 census indicates that the state of Paraná has a population of 8.4 million, ranking it sixth among the most heavily-populated states in Brazil. Traditionally, its productive structure was based almost exclusively on coffee. Although the coffee-growing frontier has been exploited to the full over the last two decades, the introduction of new mechanized soybean, cotton, and wheat crops has significantly altered the traditional pattern, mirrored in a reduction in the share of the primary sector in state GDP from 20% to 14%, an increase in the tertiary sector from 52% to 60%, and greater industrial diversification in forest and agroindustrial products and textiles for export. Together, agroindustrial and service exports currently account for over 80% of GDP.

**C. Urban poverty and the lack of basic infrastructure and services**

- 1.11 As a result of the change in the state's production pattern, there has been a substantial increase in the urban population, which has grown from 36% to 73% of the total over the last 20 years. In turn, this has led to the establishment of five urban centers (in addition to Curitiba) with populations of over 100,000 - Ponta Grossa, Londrina, Maringá, Cascavel, and Guarapuava (see Map 1).
- 1.12 Despite growth in the industrial and services sectors, Paraná's economy has been unable to absorb the population forced out of the countryside, since companies usually are capital-intensive and rely mainly on skilled labor. As a result, some 450,000 people have moved to small and medium-sized towns, where they work at seasonal jobs in the country (*bóias frias*), and others have moved to the larger cities (see Map 2).
- 1.13 In 1993 it was estimated that the indigent population in the state accounted for 33% of all families. <sup>1/</sup> Three quarters of all poor households were to be found in the cities, according to the

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<sup>1/</sup> The poverty line in the urban area is equivalent to 2 minimum wages; in the rural area it is 1.5 minimum wages.

estimates. This situation has led to more slums springing up on the outskirts of cities in Paraná, where the lack of infrastructure and basic and social services has become more acute. By way of example in 1991, 17% of urban households in Paraná had no drinking water connections, 80% had no sanitary sewer connections, and 32% had no trash collection (see Map 3).

- 1.14 Moreover, rapid urbanization under these circumstances has degraded the urban environment, particularly in areas prone to soil erosion, which in turn makes it more difficult to provide infrastructure and basic social services. The most grievous cases involve poor squatters living in such erosion-prone areas in the north-east, around water sources in the metropolitan region of Curitiba and in areas vulnerable to flooding elsewhere in the state. The proposed investment subprogram is a response by the state government to the shortfalls in basic and service infrastructure caused by this process.

D. The municipalities

1. Finances

a. Municipal taxes

- 1.15 Municipal revenues come from the following direct sources: (i) rural and urban property taxes; (ii) real-estate transfer taxes; (iii) taxes on services; (iv) fees for services rendered; (v) betterment levies; and (vi) federal and state revenue-sharing. 2/
- 1.16 Tax transfers are the largest source of municipal income, particularly in small municipalities, which places overly tight restrictions on their political and fiscal autonomy, the efficiency with which they allocate local resources, and their ability to respond efficiently to public demand for services.
- 1.17 Recent studies indicate that transfer payments are marked by the following characteristics:
- a. Transfers are generally automatic (revenue-sharing).
  - b. Transfers from the federal government are generally distributive and tend to be higher per capita for smaller towns that are relatively less developed and have weaker fiscal potential.
  - c. Transfers from the state government are generally revenue devolutions, returning money to the municipalities where the

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2/ Transfers to the municipalities of taxes collected by the federal government and the Paraná state government.

tax revenue was raised, especially to the more developed municipalities. Therefore these transfers do not comply with the equity criteria generally used to justify tax sharing.

- d. The econometric analysis suggests that there is a substitution effect between own resources and transfers, which is explained by the fact that the formulae used for transfers from the federal and state governments do not reward fiscal effort or efficiency in the municipalities, or efficiency in local spending.
- e. The sharing formulae mentioned above are one of the key factors that encourage the establishment of new municipalities which lack an economic base.

b. Spending

- 1.18 One striking aspect of municipal cost structures is that there is no systematic relationship between spending on services and demand by the population or its socioeconomic needs.

c. Conclusion

- 1.19 It was concluded from the study on the fiscal potential of the municipalities of Paraná that: (i) the municipalities are only mobilizing about 25% of their potential (gauged by population income), which indicates that they should be encouraged to raise more revenues locally; and (ii) the tax revenues of the municipalities account for just 17% of their total income.
- 1.20 The mechanism for allocating funds under the program proposed here promotes local fiscal effort by requiring cost recovery and rewarding municipalities with the best administrative and financial efficiency with additional funds. As for spending, it is expected that raising the portion covered by local funds and tying government transfers to that effort will result in more efficient resource allocation.
- 1.21 Despite the fact that the mechanism for allocating program funds will encourage local fiscal effort, during the program the studies mentioned in paragraph 2.9 of this proposal will be conducted to bring about changes in the formulae used at present for state revenue share-outs.

## 2. Institutional capacity

### a. Municipalities

- 1.22 The municipalities in Paraná have difficulties with capacity, 3/ as evidenced by the fact that they are unable to achieve their service delivery targets even when they have access to funds. To build up their capacity it will be necessary to design and implement institutional strengthening and development models based on local perceptions of needs and preferences regarding how to meet them. The models should be based on the following three premises as a minimum: (i) encouragement for community leadership and participation; (ii) provision of decentralized technical assistance based on local demand; and (iii) dissemination of "best practices" in these areas. The subprogram for institutional development and strengthening has been designed on the basis of these premises and is intended to respond to municipal needs.

### b. Municipal associations

- 1.23 In 1975 the municipalities in Paraná began to associate spontaneously and today there are 18 associations of municipalities which are private not-for-profit institutions. Under the program, these associations will step up their functions in order to: (i) support projects with externalities that benefit two or more localities; (ii) promote projects with economies of scale, sharing the costs of personnel, equipment, and infrastructure; (iii) prepare regional development plans; (iv) strengthen local institutions through training for staff; (v) develop information systems to formulate socioeconomic policies for the region and disseminate the results of the program; (vi) strengthen the municipalities' capacity to negotiate with the state and federal governments and the private financial sector; and (vii) establish relations with municipalities in remote regions which are difficult for the state government to reach.

### E. Paraná government policy for the sector

- 1.24 For the period 1995-1998, the state government proposes to attain more balanced development by diversifying the means of production and establishing new business opportunities to create more jobs and raise the standard of living. In this context, the municipalities will be called upon to devise new incentives for starting businesses, expand the coverage and quality of services, and redefine their policies for meeting basic needs, in an attempt to reverse current trends towards migration to the larger cities and concentration of services there.

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3/ Understood as the tools needed by local government to perform efficiently, such as staff, capital, and technology.

**F. Program rationale**

- 1.25 The program under consideration here is intended to have the following main impacts on the conditions described above: (i) improve the efficiency and effectiveness of the sector institutions that design and implement urban development policies; (ii) institutionalize the Fundo Estadual de Desenvolvimento Urbano [Urban Development Fund] (FDU) to enable it to augment its coffers by participating in financial and capital markets and mobilizing private savings; (iii) meet the demand for urban social services, particularly for low-income groups, by strengthening municipal functions linked to project prioritization, execution, supervision, and evaluation; and (iv) step up the process of decentralization from the state government to the municipal governments, thereby ensuring that investments respond to community needs.

**G. International financing for the sector**

- 1.26 The World Bank began funding a municipal action program for US\$150 million in 1985, which involved financing for basic infrastructure in 229 municipalities with populations of under 50,000. The second stage in the program - the state urban development program (PEDU) for US\$210 million - began in 1989 and was slated to end in December 1995. The main thrust of the PEDU was to improve the efficiency and effectiveness of municipal administration and to establish the FDU to finance basic municipal infrastructure. Although the final evaluation of this last program is not yet available, it financed some 1,200 investment projects, largely for basic infrastructure, strengthened municipal administrations, and designed an integrated information system to compile data on investment project cycles and to produce and disseminate information on municipal efficiency and the impact of projects on the beneficiary communities. The actions planned under the program proposed here are complementary to the two World Bank programs, particularly with regard to expansion of the coverage and improvement of the quality of city services and municipal administration, the institutional development of the FDU, and the strengthening of municipal autonomy. IDB participation in this third stage was a joint decision by the State of Paraná and the federal government, in an attempt to diversify multilateral sources of financing for the sector.

**H. Bank strategy and the proposed program**

- 1.27 The Bank's strategy and operative program for Brazil in the 1995-1997 programming cycle are fully consistent with the objectives of the Eighth Replenishment, the government's focus on systematically eliminating the causes (and easing some of the social consequences) of chronic inflation, and the need to foster economic modernization. The main elements of the Bank's lending strategy emphasize direct and interrelated support to the following areas:

- 1.28 **Modernization of the State:** Priority is given to improving planning and management capacity, civil service reform and fiscal reform. Towards this end, the Bank has already identified and is preparing specific projects in critical areas such as the strengthening of tax administration at the state level (complementing an innovative federal program that was approved in mid-1995) and in modernizing information systems and introducing administrative reforms in federal ministries and planning entities. Support in these areas will also reduce sources of inflation and, hence, is consistent with improving the social welfare of the nation's poor and indigent population.
- 1.29 **Productive infrastructure:** Support for continued opening of the economy, regional integration and the *Redução do Custo Brasil* initiative incorporates priority investments in the transport and energy sectors, including roads, ports, gas pipelines and possibly the electric sector. The projects contemplated in these areas also emphasize important elements for decentralizing operations, adopting administrative reforms and enhancing private sector participation. Priority is also being given to modernizing the productive sectors, including long-term credit financing for small and medium-sized industries.
- 1.30 **Social sectors, basic sanitation and the environment:** The long-standing Bank strategy in the social sectors has been to give priority to meeting the social needs of the urban and rural low-income populations through programs designed to improve the quality as well as the coverage of services in education, health and nutrition, urban renewal, potable water supply and basic sanitation. One of the most important aspects of the social sector strategy is the need to support continued decentralization coupled with institutional and management reforms, as well as increased partnership with local communities and civil society.
- 1.31 The features of the proposed program conform to the strategy outlined above, since it gives priority to efficiency in municipal management and financing for basic infrastructure, owing to their importance in improving the quality of life of the neediest groups and job creation. The additionality offered by the Bank through its participation in this program is to foster fiscal effort and efficiency in the investments made in basic infrastructure, which over the medium term may result in experiences that can be replicated in other Brazilian states.



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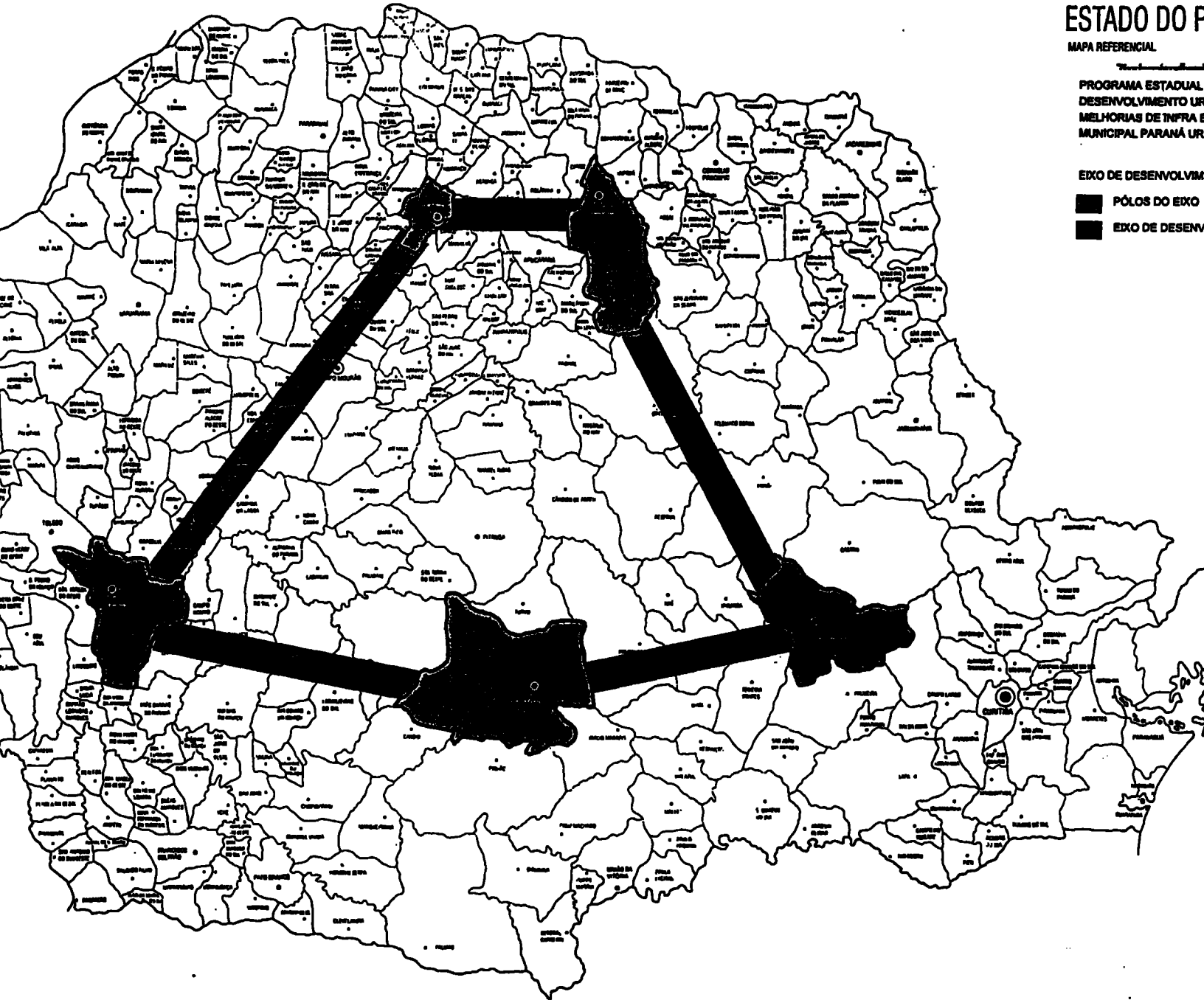
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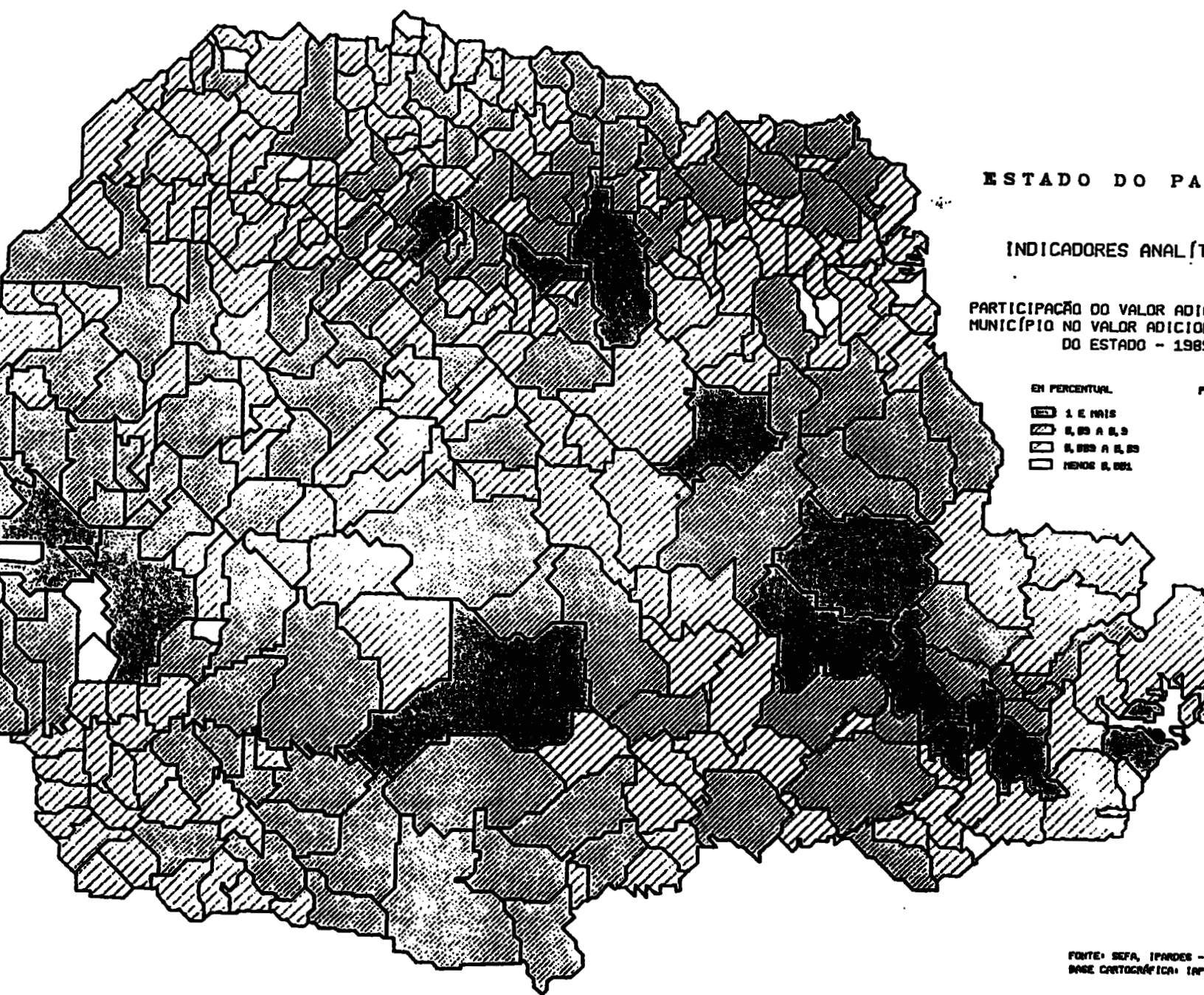
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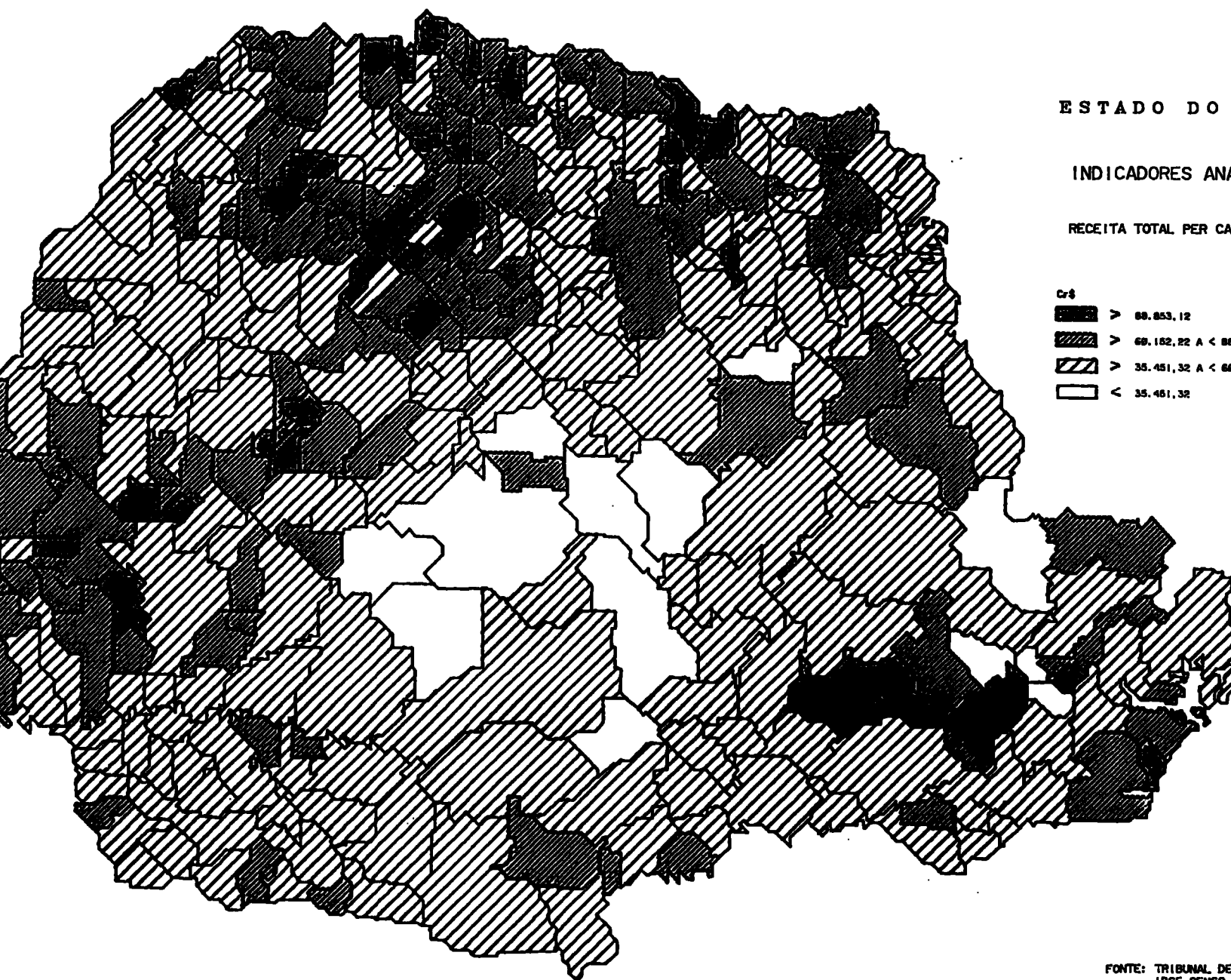
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## II. THE PROGRAM

### A. Objectives

- 2.1 The general objective of the program is to support the municipalities of the state of Paraná in improving the quality of life of their citizens, particularly low-income groups, and to assist the government of the state in its urban service delivery and job creation strategy.
- 2.2 To attain these objectives, the program will support:
  - a. The development and strengthening of individual municipalities, associations of municipalities, and the state agencies in charge of or involved in institutional, financial, and technical aspects of urban development in order to improve their efficiency and the coverage of the services they provide.
  - b. Improvements in the fiscal efficiency of the municipalities by promoting cost recovery, rationalization of spending, administrative reform, and studies to perfect the system for transfer payments.
  - c. Mechanisms to ensure that the state system for financing municipal projects is transparent, thereby reducing discretionality.
  - d. Fuller participation by organized civil society in determining priorities for municipal investments and in their execution and evaluation.
  - e. Rehabilitation, expansion, and construction of municipal and state works whose direct beneficiaries are municipalities.

### B. Description

- 2.3 The program will include the following subprograms for institutional development and strengthening and for investment projects:
  1. Institutional development and strengthening subprogram  
(US\$23 million)
- 2.4 This subprogram has been planned to boost the efficiency of the agencies responsible for designing and implementing urban development policies, and for planning, financing, supervising, and evaluating investment projects. These include the Fundo Estadual de Desenvolvimento Urbano [Urban Development Fund] and the Fundação Instituto de Assistência aos Municípios do Estado do Paraná [State of Paraná Municipal Assistance Foundation] (FDU/FAMEPAR), the

municipalities, associations of municipalities, the Instituto Ambiental do Paraná [Paraná Environmental Institute] (IAP), and the State Department of Health (SESA). Resources will be nonreimbursable and will be used to contract approximately 3,500 person/years of consulting services, divided among 1,625 person/years of individual consulting services and 1,875 person/years of services provided by consulting firms. The subprogram has the following components.

a. Institutional development (US\$17 million)

2.5 This component includes the agencies and activities described below.

(i) Fundo Estadual de Desenvolvimento Urbano/Fundação Instituto de Assistência aos Municípios do Estado do Paraná (FDU/FAMEPAR) (US\$2.5 million)

2.6 The Fundo Estadual de Desenvolvimento Urbano (FDU) is an account currently used to finance municipal projects, while the Fundação Instituto de Assistência aos Municípios do Estado do Paraná (FAMEPAR) is a public agency that provides technical assistance for municipalities and their associations. Despite constraints in the public sector and its lack of flexibility, the State Department of Urban Development (SEDU) has made relatively effective use of both these institutional mechanisms in financing and supervising municipal and state investment projects and providing technical assistance for the municipalities and their duly constituted associations.

2.7 The institutional development process to be supported under this program involves merging the two entities into a public institution constituted under private law to administer public funds for municipal investment projects - under a management agreement with the state government - and assist the municipalities and their duly constituted associations. The institution will have greater flexibility than the FDU to secure resources on the financial and capital markets and will also become a facilitator for the mobilization of private savings for urban development. Moreover, the new institution will have greater autonomy to: (a) allocate financial resources on the basis of efficiency criteria; (b) supervise, evaluate, and audit the use of funds; (c) design and introduce modern human-resource policies; and (d) build stronger ties with the community.

2.8 Under this new institutional arrangement, the State Department of Urban Development will continue to be responsible for setting urban development policies and for planning the use of funds, centering on considerations of efficiency and effectiveness. The new private-law institution will be responsible for applying those policies, conducting sector studies, implementing the project information system designed under previous operations, and disseminating the results.

- 2.9 Under this component, approximately 30 person/years of consulting services will be financed to carry out the following activities: (a) prepare and/or update the legal instruments and regulations necessary for the institutional development of FDU/FAMEPAR; (b) prepare and implement a plan to rationalize FDU/FAMEPAR's current staff; and (c) strengthen the technical and administrative capacity of the new institution. In addition, the following studies will be conducted: (a) development of a municipal bond market; (b) securitization of municipal debt; (c) risk classification of municipalities; and (d) adaptation of the formula currently used for the share-out to municipalities of receipts from the goods and services tax, to encourage the mobilization of local resources and rational spending. The terms of reference for these studies will be presented to the Bank for consideration within 90 days after the prospective loan contract has been signed.

(ii) Municipalities (US\$14.5 million)

- 2.10 Municipal administrations will be strengthened to improve their spending efficiency and effectiveness in mobilizing local funds. The funds will be used to: (a) streamline municipal payrolls (b) pay for early retirement packages; and (c) contract 2,895 person/years (3.6 per municipality) of consulting services to design and implement new investment planning and management systems or improve existing systems, retrain staff, upgrade information systems, and forge stronger ties with the community. Adhering to the methodology to be used by the municipalities in the sample (paragraph 2.14 a), the remaining municipalities will present institutional development plans to FAMEPAR, indicating the areas to be improved, costs, the timetable for implementation, and the indicators to be used to evaluate the results.
- 2.11 Financing for municipal infrastructure projects will not be delayed on account of the institutional development activities for FDU/FAMEPAR and the municipalities described above, since they are essentially aimed at adjusting institutional mechanisms that are already functioning in order to improve their efficiency. In each case, the process will be implemented gradually, in tandem with needed infrastructure projects that meet the eligibility criteria for financing under the program.

b. Institutional strengthening component (US\$6 million)

- 2.12 This component is intended to improve the management, technical, and administrative capacity of associations of municipalities, the Instituto Ambiental do Paraná [Paraná Environmental Institute] (IAP), and the State Department of Health (SESA). In total, 575 person/years of service will be engaged to carry out the following activities: (i) associations of municipalities: to improve their capacity to supervise and evaluate investment projects and information systems; (ii) IAP: to train its staff in environmental

management and technology and in the design and implementation of environmental information systems and dissemination of the results; and (iii) SESA: to train the staff of hemotherapy and epidemiological diagnostic and surveillance units in the use of information systems, improve health care planning on the municipal level, and establish mechanisms to disseminate information on health.

2. Investment subprogram (US\$369 million)

2.13 This subprogram is intended to improve the quality of urban social services, while increasing coverage and supply. It has the following components:

- a. **Basic services** (US\$309 million) to improve and expand urban infrastructure that serves the general public, such as street lighting, residential electricity connections, street paving, construction and repair of bridges and overpasses, urban and municipal transport terminals, reclamation of degraded areas, works to control erosion, drainage works, construction of simple drinking water systems, treatment of liquid waste, collection, transport and final disposal of solid waste, procurement of equipment, machinery, and vehicles, and rehabilitation of municipal archives.
- b. **Targeted social services component** (US\$30 million) to improve the coverage and quality of social services aimed most directly at the poor, such as day nurseries, centers to assist seasonal workers, family and child and youth welfare centers, recreation and athletic facilities, health care centers and posts, hospitals, cultural centers, libraries, and the procurement and distribution of basic medication kits.
- c. **Component to support microenterprises and small producers** (US\$30 million) to improve and/or establish basic infrastructure to create new jobs and facilitate product marketing and the exchange of experience among these producers. The funds will be used to construct and equip industrial and commercial buildings offering basic facilities, 4/ lime storage facilities, grain dryers, simple plants for processing farm products, slaughterhouses, and refrigerated storage facilities.

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4/ Buildings equipped with electricity and water to be used by fledgling microenterprises until they can survive on their own. They will be the property of the municipalities, which will rent out space to microentrepreneurs.

C. Scale

2.14 The program was scaled on the basis of the following factors:

- a. Institutional development and strengthening requirements were based on a study of 24 municipalities, FDU/FAMEPAR, eight associations of municipalities, the IAP, and SESA. The study identified 122 actions for municipal institutional development at an average cost of US\$200,000 per municipality, which when extended to the remaining 347 municipalities would rise to US\$69.4 million equivalent. The institutional strengthening activities for the associations of municipalities, the IAP, and SESA were calculated as US\$5.8 million. These amounts were adjusted to US\$23 million since some of the activities planned will already have been carried out and there are other funds available for these purposes.
- b. The shortfall in investments in urban infrastructure, which stands at approximately US\$2 billion, was estimated on the basis of a sample of 65 municipalities. A total of 132 investment projects were identified costing about US\$75 million, which were used as the sample for this program, and demand was found for 832 projects in different stages of development. The program will only cover a fraction of these needs, based on the order in which the municipalities present their requests, provided they comply with the eligibility criteria.
- c. The institutional capacity of the State Department of Urban Development (SEDU), the municipalities, and the other participating entities to carry out the program, which was measured by the 1,200 projects prepared and executed in the last five years, the identification and preparation of the projects in the sample, and the support for institutional development and strengthening envisaged in the proposed program.
- d. The costs that would be incurred by SEDU and the participating entities for program administration, supervision, and evaluation were calculated on the basis of the costs of similar operations already executed plus operating and maintenance costs.

D. Cost and financing

1. Costs

2.15 The total cost of the program is an estimated US\$415 million equivalent, as shown below:



Table II-1

**COSTS AND SOURCES OF FINANCING <sup>a/</sup>**  
(US\$ million)

CATEGORY	IDB	LOCAL	TOTAL	%
1. Administration	13.0	7.0	20.0	4.8
2. Institutional development and strengthening subprogram	13.0	10.0	23.0	5.5
2.1 Institutional development component	10.0	7.0	17.0	4.0
2.2 Institutional strengthening component	3.0	3.0	6.0	1.5
3. Investment subprogram	220.51	149.0	369.51	89.0
3.1 Basic services component	178.51	131.0	309.51	75.0
3.2 Targeted social services component	20.0	10.0	30.0	7.0
3.3 Support for microentrepreneurs and small producers	22.0	8.0	30.0	7.0
Subtotal	246.51	166.0	412.51	99.0
4. Inspection and supervision	2.49		2.49	1.0
Total	249.0	166.0	415.0	100.0
Percentage	60	40	100	

<sup>a/</sup> The Brazilian authorities are negotiating cofinancing equivalent to US\$83 million from the OECF, which would be added to the funding from the Bank and the local counterpart shown in this table. A final decision in this regard is expected in early 1996.

2. IDB financing

- 2.16 The Bank's financing will consist of a loan for US\$249 million in foreign exchange from the ordinary capital, representing 60% of the total cost of the program. This percentage is justified in view of the fact that the program is targeted to low-income groups, in accordance with paragraph 2.15 of the Eighth Replenishment document (AB-1704). A count of the beneficiaries in the sample suggests that 72% belong to low-income groups. <sup>5/</sup>

3. Local contribution

- 2.17 The local contribution of US\$166 million equivalent will come from the FDU (US\$66 million), the municipalities (US\$44 million) and the state government (US\$56 million). The borrowing and financial capacity of the municipalities, the financial projections for the FDU over the next five years, and the financial situation of the Government of the State of Paraná over the next three years and financial projections for 1996 were taken into account in determining the composition and amount of the local contribution to the program.

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<sup>5/</sup> The poverty line is R\$91 per capita per month.

### III. PROGRAM EXECUTION

#### A. Guarantor and borrower

- 3.1 The guarantor will be the Federative Republic of Brazil, which will only guarantee the debt service. The borrower will be the State of Paraná. The subloans will be guaranteed by one quarter of the goods and services tax corresponding to the municipalities.

#### B. Executing agency

- 3.2 The program will be executed by the State Department of Urban Development (SEDU), through the "management unit" established to execute programs financed by the World Bank. The unit has well-qualified technical staff, solid administrative systems, and an infrastructure that is adequate for program execution. The management unit will be responsible for the administration, coordination, supervision, and evaluation of this program, and for liaison with the Bank, the participating entities, and the community. It will also be responsible for authorizing Banco do Estado do Paraná (BANESTADO) to disburse program funds.
- 3.3 The decentralized plan for program execution also provides for participation by the entities described below.

##### 1. Fundação Instituto de Assistência aos Municípios do Estado do Paraná

- 3.4 Fundação Instituto de Assistência aos Municípios do Estado do Paraná (FAMEPAR), with its five regional offices, is associated with SEDU and will be responsible for: (i) approving investment projects costing more than US\$200,000 but less than US\$1 million; (ii) providing technical assistance for the municipalities and the associations of municipalities; (iii) auditing the accounts of the FDU; and (iv) administering the subprogram for institutional development and strengthening. FAMEPAR gained experience in executing the two programs financed by the IBRD. It prepared the institutional development and strengthening subprogram proposed in this document in consultation with the municipalities and the associations of municipalities, and its staff has the capacity to carry out the tasks described.

##### 2. Associations of municipalities

- 3.5 Paraná's 18 associations of municipalities are nonprofit private-law entities (NGOs), whose members are municipalities in different parts of the state, who meet to discuss common problems and exchange ideas. They are currently receiving limited support from SEDU to defray the costs of their activities. For the purposes of this program, the associations will be responsible for supporting

the municipalities in preparing investment projects, inspection and supervision of works, approval of projects costing less than US\$200,000, and holding bids for works and equipment for groups of municipalities to obtain economies of scale. The associations will be given funds from the local contribution equivalent to 2.5% of the cost of the municipal works to carry out these activities. They will be strengthened institutionally through specialized consulting services in project supervision and evaluation, and their staff will be increased to a minimum of eight professionals and support staff.

### 3. Municipalities

- 3.6 The municipalities will be responsible for preparing and executing their investment projects and institutional development plans, with support from the associations of municipalities and FAMEPAR, respectively.

### 4. Instituto Ambiental do Paraná

- 3.7 The Instituto Ambiental do Paraná [Environmental Institute of Paraná] (IAP) will verify and certify that projects comply with the program's environmental eligibility criteria prior to project approval, and will participate in project monitoring.

### 5. Companhia Paranaense de Saneamento

- 3.8 Companhia Paranaense de Saneamento [Paraná Sanitation Company] (SANEPAR) will be responsible for preparing the potable water and sanitary sewerage projects, submitting them to SEDU for financing, conducting the pertinent bids, and executing and supervising the works. SANEPAR will consult with the municipalities on project priorities, the technology to be used, and costs. It has extensive experience in formulating and executing programs financed by the Bank and other international organizations.

### 6. Companhia de Energia Elétrica do Paraná

- 3.9 Companhia de Energia Elétrica do Paraná [Paraná Electric Power Company] (COPEL) will prepare the electrification projects for city streets and residential connections, which will be approved by SEDU. It will also hold the necessary bids and execute and supervise the works.

### 7. State Department of Health

- 3.10 The State Department of Health (SESA) is responsible for preparing state health programs, and in consultation with the municipalities it will formulate local projects that will subsequently be submitted to SEDU for approval. It will also hold bids and execute and supervise the projects approved.

8. Banco do Estado do Paraná

- 3.11 Banco do Estado do Paraná (BANESTADO) will act as the program's financial agent until its functions are absorbed by the new private-law public institution established as a result of the reform of FDU/FAMEPAR, which will have the authority to manage and obtain funds. To formalize the transfer of funds under the prospective loan and the local counterpart to BANESTADO, the borrower will establish an account in BANESTADO, administered and operated by SEDU.

C. Rules governing execution

- 3.12 The relations between SEDU/program management unit and the participating entities described above will be established under agreements. Relations between BANESTADO and the agencies receiving investment loans will be established through subloan contracts. Funds for institutional development and strengthening will be transferred by SEDU, on a nonreimbursable basis, to the beneficiary organizations. Program execution will conform to the requisites, rules, and operating, technical, and financial procedures established in: (i) the stipulations of the prospective loan contract; and (ii) the program Operating Regulations (Annex III-1). Entry into effect of the Operating Regulations and signature of the series of agreements formalizing approval of an investment project or an institutional development or strengthening project by a municipality or one of the participating agencies will be conditions precedent to the first disbursement.

D. Execution period and deadline for the commitment of funds

- 3.13 The program will be executed in four years, with the funds to be committed in three years, counting in both cases from the date on which the loan contract becomes effective.

E. Operating Regulations

- 3.14 The regulations describe the mechanism for allocating funds to the municipalities and participating state agencies, eligibility criteria for municipalities, state agencies, sectors, and projects, model agreements and bid documents for goods and services, model contracts, and program operating and monitoring manuals. The main items in the Operating Regulations are described below.

1. Distribution of program funds

a. To the municipalities

- 3.15 The proposed system for distributing funds to the municipalities has the following objectives: (i) to ensure that municipalities with weaker execution capacity have initial access to funds, without compromising their total and timely use by more efficient

municipalities; and (ii) to support the fiscal effort and administrative efficiency of the municipalities.

3.16 The funds for investment projects will be distributed to the municipalities as follows:

- a. Initially, 50% of these funds will be allocated on the basis of the following criteria: (i) in proportion to the urban population of the municipalities; (ii) an additional US\$1.2 million for the main cities in the development corridor (Londrina, Cascavel, Maringá, Ponta Grossa, and Guarapuava), and US\$500,000 for the secondary cities in the development corridor (Telemaco Borba, Campo Mourão, Ibiporã, Cambé, Rolândia, Apucarana, Araçongas, and Laranjeiras do Sul), based on the assumption that these cities provide services to areas larger than their formal jurisdictions; and (iii) US\$1.4 million to special areas defined on the basis of their weaker socio-economic development.
- b. The remaining 50% will be distributed starting in the second half of 1997, on the basis, *inter alia*, of spending efficiency, fiscal effort, and compliance with the targets established for municipal projects and administrative and financial efficiency indicators. Additional funds will be allocated to municipalities proposing to undertake administrative reforms. The borrower, through the executing agency, will submit the methodology for distributing those funds to the Bank's satisfaction, within 12 months after the loan contract is signed.
- c. The first 50% allotment will be used to satisfy the demand for investment projects in the first 18 months of execution. This should be enough time in which to devise, agree on, and make known the formula that will be used to apportion the other half.
- d. In the second half of 1997, the uncommitted balance of the funds initially allocated will be canceled. 6/ That balance will be distributed following the procedures described in paragraph 3.16 b.

b. To the state agencies participating in the program

3.17 Funds will be distributed on the basis of the amount of the projects presented by the state agencies that comply with the following criteria: (a) COPEL: projects to install residential connections for families earning up to three minimum wages, persons living in premises not larger than 60 m<sup>2</sup>, requiring connections not

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6/ Funds are deemed committed when contracts for works, services, and/or goods have been signed.

longer than 155 m; these criteria will facilitate the targeting of investments to low-income groups; (b) SESA: expansion of basic health care services to benefit low-income groups; and (c) SANEPAR: expansion of the water and sewerage systems in cities with populations of under 100,000, since more complex systems will be financed from other sources.

- 3.18 The following procedures will be used to apportion the funds: (a) initially 50% will be allocated in proportion to the cost of the eligible investment plan presented by each institution to SEDU; (b) the unallocated funds will be made available to the state agencies that have committed 100% percent of their initial quotas; and (c) uncommitted balances will be canceled on June 30, 1997, and they will be turned back into the balance available for the program.

2. Discretionary limits

- 3.19 The purpose of establishing the discretionary limits described below is to contribute to the decentralization process and streamline project approval and implementation arrangements.

a. Associations of municipalities

- 3.20 Associations of municipalities will have the authority to approve financing for individual indivisible projects having a total cost of US\$200,000 or less.

b. FAMEPAR

- 3.21 Projects costing more than US\$200,000 but less than US\$1 million will be submitted by the associations of municipalities to FAMEPAR for approval. If they cost US\$1 million or more, FAMEPAR will submit them to the program management unit/SEDU; the latter will submit any project costing US\$5 million or more to the Bank for consideration.

3. Eligibility criteria

a. For municipalities

- 3.22 All the municipalities in Paraná except Curitiba will be eligible provided that they: (i) obtain authorization from the Central Bank of Brazil to borrow, based on the municipality's ability to repay, according to guidelines applicable to all the municipalities in the country; (ii) present the municipal edict authorizing the municipality to borrow; (iii) present a 1:1 or better ratio of current revenue to current expenditure; in calculating this ratio, transfers from the federal and state governments under current legislation will be considered as income, but discretionary transfers will not be counted; municipalities that do not attain

this ratio will have to apply for funds for administrative reform under the program's institutional development component; and (iv) are up to date in complying with the clauses contained in earlier contracts.

b. For state agencies

- 3.23 SESA, SANEPAR, and COPEL will be eligible, provided they comply with the following criteria: (i) SESA must demonstrate that it has sufficient counterpart funds; (ii) SANEPAR and COPEL must be authorized by the Central Bank to borrow the sums in question, demonstrate that they obtain sufficient revenues from the rates they charge to cover their operating, administrative, and maintenance costs as well as debt service on the subloans and other loans contracted, and be up to date in complying with the clauses contained in earlier contracts.

4. Eligibility criteria by type of project and sector

- 3.24 The Operating Regulations contain technical, economic, financial, environmental, and human resettlement criteria for each type of project. Table III-1 gives some examples.
- 3.25 A sample of 132 projects was prepared for the program and 114 complied with the eligibility criteria set out in the table.

5. Cost-recovery mechanisms

- 3.26 Service fees, rates, betterment levies, and other taxes should, as a general rule, cover operating, administration, maintenance, and investment costs (to the extent possible in view of the socio-economic situation of the population). In cases in which the project beneficiaries cannot be clearly identified or when a breakdown is not justified, costs will be recovered from the general revenues of the municipalities. In such cases, it must be demonstrated that the project will not create a deficit in the municipality's current account.

6. Inspection and supervision of the works

- 3.27 The contracting municipality or state entity will be responsible for inspecting the works on its own or through the use of consultants or specialized firms. Supervision of works contracted by the municipalities will be performed by the corresponding association of municipalities, and works contracted by state agencies will be supervised by SEDU. The costs incurred for these activities may be recognized as part of the project costs.

Table III-1

**ELEGIBILITY CRITERIA FOR INVESTMENT PROJECTS**

TYPE OF PROJECT	TECHNICAL	ECONOMIC	FINANCIAL	ENVIRONMENTAL
Building (barracão)	Compatibility of the building with its function and land-use zoning	Market study and private analysis	Cost recovery through rental of space	Avoid ecologically fragile areas; ensure waste collection
	Coherence between size and demand	Least-cost solution	Cost recovery through the municipal budget	Avoid ecologically fragile areas; ensure waste collection
Water treatment	Compatibility of the building with its functions	Least-cost of US\$450 per m <sup>2</sup>	Recover investment, operating, and maintenance costs	Ensure waste collection and drinking water quality
Wastewater treatment	Compliance with COPEL standards	Least-cost solution and benefit/cost analysis with an internal rate of return of 12% or more	Demonstrate that charges for service cover operating, maintenance, and incremental costs	N/A
Storm sewerage	Justification of the works and compatibility with the urban development plan	Least-cost solution	Cost recovery of not less than 70% of the total investment through charges to beneficiaries	Build storm sewers where needed
Port terminal	Analysis of alternative locations and compatibility of the building with its functions	Benefit/cost analysis with an internal rate of return of 12% or more	Cost recovery	Ensure collection of solid waste; availability of potable water; construction in ecologically sensitive areas
Sanitation microsystems	Evaluation of systems on the basis of the municipal sanitation plan and comparative study of solutions for the proposed systems	Benefit/cost analysis with an internal rate of return of 12% or more	Cost recovery through charges for water	Avoid ecologically fragile areas
Solid waste removal	Compliance with the operating standards for the solid waste collection and final disposal system	Benefit/cost analysis with an internal rate of return of 12% or more	Cost recovery through charges for service	Avoid ecologically fragile areas



7. Terms and conditions for the transfer of funds

- 3.28 The borrower will transfer the proceeds of the loan and the state counterpart to the FDU on a nonreimbursable basis. The latter will transfer funds for investment projects to the subborrowers with repayment terms tailored to the type of project, which may not be longer than the useful life of the project. Interest rates will be equivalent to the "long-term interest rate" plus six percentage points. However, for targeted social and sanitation projects, the state government will subsidize part of the investments when warranted by the socioeconomic circumstances of the population.
- 3.29 Funds for institutional development and strengthening will be transferred on a nonreimbursable basis.

F. Environmental aspects

- 3.30 The impact of the program on the human environment (the public in general and the low-income population in particular) will be highly positive. It will have the following specific positive effects on the environment and human groups: (i) improvements in public health indicators by building water and sewer systems, treating liquid waste, and collecting and properly disposing of solid municipal, commercial, and industrial waste; (ii) benefits for groups affected by the resettlement and urbanization process in the form of better sanitary, health, and housing conditions; (iii) control of erosion and sedimentation through the rehabilitation of degraded areas and the construction of storm sewers; (iv) better socioeconomic conditions as a result of paving projects and works seeking to improve the lot of microentrepreneurs and small producers; (v) better environmental protection through the strengthening of environmental agencies and their staff; and (vi) measures to foster decentralization of environmental management in Paraná.
- 3.31 The main negative environmental impacts of the projects in the sample are temporary and involve little risk. They include: (i) removal of plant cover; (ii) inadequate location of works; (iii) contamination of surface water; (iv) production of construction waste; (v) soil erosion; (vi) dust; and (vii) production of liquid waste.
- 3.32 To minimize these negative impacts, the projects will be required to comply with the environmental protection and mitigation measures that form part of the eligibility criteria of the program. They include: not locating works in ecologically fragile areas that serve as water sources; reforesting and rehabilitating the soil; treating liquid waste prior to discharging it into bodies of water, in accordance with the environmental classification of the latter, so as not to jeopardize their present or future use; treating and adequately disposing of all the solid and liquid waste generated during construction and operation; building storm sewers in conjunction with paving projects; and involving the beneficiary

population affected by the works. Assistance will be provided to the institutions responsible for the environmental aspects of the projects to ensure implementation of the aforementioned measures and the environmental feasibility of the program. The program's management unit will include information on compliance with the environmental eligibility criteria and the findings of environmental inspections of the program in its annual reports.

G. Program monitoring

- 3.33 During program implementation, the borrower, through the executing agency, is to present annual reports to the Bank on the program's results within 90 days after the close of each calendar year.
- 3.34 The reports are to include the following: (i) efficiency in executing the program in terms of the number of projects approved and executed by sector, amounts allocated and spent, number of low-income beneficiaries served; (ii) number and outcome of the institutional development activities of FDU/FAMEPAR and the municipalities; (iii) number and results of the institutional strengthening activities for IAP, SESA, and the associations of municipalities; (iv) impact of the program on the fiscal, administrative, and operating situation of the municipalities; (v) impact of the program on the coverage, quality, operation, and maintenance of services; and (vi) cost recovery. The indicators and targets set out in the Logical Framework for the program will be used to measure the results.
- 3.35 The Bank and the borrower will conduct annual reviews of progress and achievements within 30 days after each annual monitoring report has been presented. If, as a result of the annual meetings and/or reviews of the reports, the Bank should find program execution to be unsatisfactory, within the following 60 days the executing agency will be required to present supplementary reports on the adjustment measures it proposes to take, together with a timetable and budget for same.

H. Procurement of goods and services

1. Goods

- 3.36 Goods will be procured and construction works contracted in accordance with the procedures stipulated in Annex B to the loan contract. International competitive bidding will be required for procurements of goods worth over US\$350,000, and works costing more than US\$5 million, since in the past foreign bidders have only been interested in similar projects in Brazil that were above these thresholds. By way of example, the executing agency held 1,112 bids for average amounts of US\$310,000 for goods and US\$3.9 million for works projects between December 1990 and June 1995 and no foreign bidders took part.

- 3.37 Tenders for lesser amounts will conform to local legislation, which specifies the following modalities and thresholds:

MODALITY	GOODS (US\$000)	CONSTRUCTION CONTRACTS (US\$000)
Direct contracting	Up to 1.8	Up to 7.1
Price quotations	From 1.8 to 36	From 7.1 to 143
Limited bidding	From 36.1 to 572 a/	From 143.1 to 1,430
Competitive bidding	Over 572	Over 1,430

a/ Although local legislation permits limited bidding for the procurement of equipment worth more than US\$350,000, in the present program international competitive bids will be held for equipment costing more than that figure.

## 2. Consulting services

- 3.38 Consulting services will be selected and contracted by the program's management unit in keeping with the IDB requirements appended to the loan contract. However, given the large number of consulting services required under the program and in order to streamline execution and facilitate supervision by the Country Office, it is recommended that the requirement of prior consultation with the Bank be maintained only for contracts for individual consultants worth more than US\$50,000 and for consulting firms worth more than US\$100,000. The general terms of reference for each group of services must be approved in advance by the Bank.
- 3.39 The executing agency has been using the services of the United Nations Development Programme (UNDP) since June 1995 to select, contract, and supervise the individual consultants who helped to prepare this program, with satisfactory results in terms of expediting procedures, facilitating the payment of salaries on international scales, and shortening the time required to execute the works. Based on that experience, it is recommended, as an exception, that the executing agency be authorized to broaden the current contract with the UNDP, for the latter to handle the hiring of approximately 30 person/years of individual consulting services at a cost of US\$2 million, to assist the executing agency in the institutional development stage envisaged in the program. UNDP will charge the equivalent of about 3% of the value of the contracts to defray its administrative costs.

### I. Disbursements

- 3.40 In view of the nature of the operation, the volume of transactions stemming from procurement of goods and services and the characteristics of a global program, an efficient and rapid mechanism is needed to streamline the process of disbursing program funds. Bank

rules will be followed for disbursements, except in the cases of justification of advances and reimbursements of payments made, where the executing agency need only present a disbursement request to the Bank's Country Office, accompanied by the Breakdown of Payments and Control of Disbursements and Local Contributions forms, with the supporting documentation being kept by the executing agency.

- 3.41 The executing agency will ensure that the information contained in the Breakdown of Payments form is duly substantiated as normally required by the Bank, and will retain the originals and/or copies of contracts, orders, invoices, receipts, payment vouchers, suppliers' certificates, certificates of origin, and other documents supporting the information provided in the form. Such documents must be duly identified, suitably filed, and made available for review on request by IDB officials and external auditors. The documentation must be kept in an active file in a place indicated by the executing agency for not less than five years after the date of disbursement in full of the Bank's loan.
- 3.42 During its technical and/or financial inspection visits, the Country Office will sample the executing agency's files of supporting documentation for disbursement requests and ensure that the funds have been used in the form set forth in the loan contract. Should errors be found, a higher percentage of the documentation will be verified, and the executing agency will be notified of any deductions to be made from future requests.

J. Advance funds

- 3.43 Given the nature of the program, the number of municipalities involved, and the variety of activities to be financed, it is recommended that the equivalent of 10% of the Bank's loan be made available as an advance.

K. Recognition of expenditures

- 3.44 **Services:** Using its own funds and funds from the state agencies participating in the program, the executing agency contracted and paid for 98 person/months of individual consulting services (US\$400,000) to prepare studies for the program's design. Approximately 46 person/months worth US\$169,000 were contracted under the SEDU/UNDP agreement, and the remaining 52 person/months, costing US\$212,000 equivalent, were contracted under similar procedures. In both cases, the procedures conformed to Brazilian legislation, and it is therefore recommended that up to US\$400,000 equivalent be recognized against the local contribution under the institutional development and strengthening subprogram.
- 3.45 **Civil works:** From May to September 1995, the executing agency approved 32 investment projects, including works costing

approximately US\$9.6 million. The Bank mission reviewed the criteria used in approving the projects and the procedures for awarding, contracting, and paying for the civil works, and found that: (i) seven projects, worth approximately US\$400,000, had not been approved using criteria compatible with the program; and (ii) criteria similar to those for the program were used in approving the other 25 projects, and works for US\$9.2 million were contracted following procedures substantially similar to those of the program. Accordingly, it is recommended that US\$9.2 million in outlays be recognized against the local contribution under the investment subprogram.

L. Accounting and auditing

- 3.46 The program's records and accounts will be kept by each participating municipality, and the program management unit will maintain an integrated accounting system to be consolidated monthly. The system will include charts of accounts, accounting manuals, forms, consolidation procedures, and guidelines for budget management and control. SEDU has a system of this kind.

M. Land and rights-of-way

- 3.47 Prior to tendering each works project, the municipalities will present the management unit with evidence of legal possession, easements, and other rights over the land necessary for construction and other works, and will demonstrate, 60 days prior to calling each bid, that they have contracted the necessary consulting services or have the staff necessary to inspect the respective works. This evidence will be kept by the executing agency for review by the Bank.

N. Use of recoveries

- 3.48 To assure replenishment of the subloan funds and hence the sustainability of the program, funds recovered from loans extended under the program during its execution may only be used to grant new loans on substantially the same terms as those established in the Operating Regulations, unless the Bank and the borrower agree on another use for such recoveries.

O. Auditing

- 3.49 During the four years of execution, the program's financial statements will be presented annually, within four months after the close of each fiscal year, certified to by a firm of independent external auditors. The auditors are to give their opinion regarding all aspects of program management.

P. Ex post evaluation

- 3.50 No ex post evaluation of the program has been included as a contractual requirement. However, given the nature of the program, an evaluation of this kind is recommended; data from the progress reports can be used for the purpose.

#### IV. JUSTIFICATION, FEASIBILITY AND RISKS

##### A. Justification

- 4.1 The development plan for the state of Paraná is based on a comprehensive and integrated approach and seeks to vitalize the means of production, encourage the development of cities in line with their potential and location, facilitate new business opportunities, create jobs, and improve the quality of life of the population. The program proposed in this document will support the autonomy of municipalities by strengthening and developing their capacity and that of associations of municipalities.
- 4.2 The main benefits of the program derive from the investments, although it will bring other aggregate benefits associated with better allocation of financial resources and transparency in their use, greater investment efficiency, and a more rational system for allocating subsidies.
- 4.3 The program will improve the transparency and efficiency of inter-governmental transfers of funds and the mobilization of local resources as a mechanism to shed light on public preferences and to focus investments. Accordingly, it is proposed to: (i) establish a new mechanism for the allocation of FDU funds; (ii) recover the investment, operating, and maintenance costs of the works; and (iii) rationalize and budget the necessary subsidies, targeting them directly to low-income groups.
- 4.4 The program will finance studies on the establishment of a municipal bond market and institutionalization of the FDU as a facilitator of private-sector participation in the financing of local requirements. Since the municipalities must demonstrate that they are efficient if they are to raise funds on capital markets, the program will encourage them to take steps to improve their operating, administrative, and financial efficiency.
- 4.5 Taken as a whole, the above actions will result in greater municipal administrative efficiency, which will free up resources and spur economic growth.

##### B. Program feasibility

- 4.6 The feasibility of the program is based on an analysis of a representative sample of the projects to be financed and on the selection criteria established for institutions and projects not forming part of the sample.

1. Representative sample

- 4.7 Based mainly on projects being processed by SEDU and others developed specifically for the program, 132 projects located in 65 municipalities were identified and analyzed in detail with respect to their technical, economic, financial, and environmental features. The value of the sample by component is: (a) basic services for US\$54.3 million, for public lighting, street systems, transportation, sanitation, and the environment; (b) targeted social services for US\$13.2 million, for equipment, site work and other preparations for green areas, cultural, recreational, and sports facilities, and health care; and (c) support for microentrepreneurs and small producers for an estimated US\$7.6 million, including equipment for production, industry, commerce, and support for small rural producers.
- 4.8 An analysis of the 132 projects in the sample showed that 114 comply with the eligibility criteria, three would have to be supplemented, and 15 would have to be revised. The latter include three projects for sanitary landfills, which require integrated solid waste disposal studies before they can be approved.

2. Economic feasibility of the projects

- 4.9 A socioeconomic evaluation of the 132 projects in the sample was conducted to determine the economic feasibility of the works. A benefit/cost analysis was performed of 58 projects to determine the economic internal rates of return (EIRR), 16 were privately evaluated, and six were analyzed on the basis of cost-efficiency criteria. The other projects were evaluated from the standpoints of scale and least-cost solution.
- 4.10 The benefit/cost appraisal included an analysis of: (i) supply and demand for services to be produced under the different projects to ensure adequate scaling; (ii) alternatives to ensure that the least-cost solution was selected; and (iii) benefits and costs, to estimate the EIRR of each project. Market studies and financial feasibility were considered in the projects submitted for private analysis.
- 4.11 The EIRRs by type of project are shown in the following table:



Table IV-1

**REPRESENTATIVE SAMPLE  
ECONOMIC INTERNAL RATES OF RETURN (EIRRs)**

TYPE OF PROJECT	EIRR RANGE (%)	
	MINIMUM	MAXIMUM
Street lighting	16.3	159.5
Residential electricity connections	n/a	19.6
Urban bridges	24.3	52.5
Mass transit terminals	n/a	14.7
Water supply	21.2	44.6
Land reclamation and erosion control	12.6	49.0

- 4.12 In projects whose benefits could not be measured, supply and demand for the proposed service was studied on the basis of the present and projected population and its requirements. Proposed expansions were examined from the standpoint of their consistency with service availability, and the location of projects was evaluated with regard to their proximity to beneficiaries. It was noted that the proposed architectural design would minimize the present value of investment, operating, and maintenance costs at the rate of 12%.
- 4.13 The projects to support microenterprises and small businesses will ensure access to inputs and increase the value added in the processing of local products. The projects would also produce local services to improve the quality of life of the communities. In both cases, low-income groups would be the chief beneficiaries.
- 4.14 The above-described findings suggest that the program is economically feasible for two reasons: (i) the sample is representative of the program as a whole; and (ii) the demand-driven projects not included in the sample will only be approved if they comply with the criteria established in the program's Operating Regulations.

**3. Technical and environmental feasibility**

- 4.15 The examination of the projects in the sample indicates that they were prepared with due attention to detail, including a study of alternatives for design, materials, and equipment, in order to obtain least-cost solutions that take account of investment, operating, and maintenance costs.
- 4.16 The civil works associated with the projects are relatively simple, which suggests that they can be completed within the program timetable.

- 4.17 From the environmental standpoint, the positive impacts of the project in the sample outweigh the negative impacts. The measures for environmental protection and impact mitigation included in the program's Operating Regulations and the institutional oversight mechanisms are considered sufficient to ensure that the program will be environmentally feasible.

4. Institutional and financial feasibility

- 4.18 The state of Paraná enjoys a balanced financial situation which permits it to generate savings in its current account, as shown in Table IV-2. Its debt (i) is equal to 12% of its GDP, which is considered low; (ii) has a repayment profile of about 20 years, which is compatible with the useful life of the investments it is financing; and (iii) is comparatively low in cost. This combination of factors permits the state to mobilize additional resources to finance its investment program.
- 4.19 The state of Paraná also has a modern system for managing public finances and has employees with good technical qualifications, although recent studies indicate the need to rationalize the state administration to attain greater efficiency. Its main companies, including BANESEADO, run a surplus and do not exert pressure on the budget.
- 4.20 The situation described above suggests that the Paraná state government will have sufficient financial resources for the local counterpart and debt service for the proposed program.

**Table IV-2**  
**FINANCIAL SITUATION OF THE STATE OF PARANÁ**  
**BUDGETS (US\$ million, 1996)**

	EXECUTION			FORECAST FOR 1996
	1993	1994	1995	
<b>Current revenue</b>	<b>2,268.0</b>	<b>2,653.7</b>	<b>2,732.2</b>	<b>3,475.3</b>
Taxes	1,439.2	1,845.2	1,939.2	2,244.7
Transfers	342.4	371.1	467.1	814.3
Other	486.4	437.4	325.9	416.3
<b>Current expenditures</b>	<b>1,862.8</b>	<b>2,112.1</b>	<b>2,298.6</b>	<b>3,037.0</b>
Personnel	720.4	791.4	1,561.1	2,152.0
Interest	84.8	69.5	68.1	89.2
Transfers	918.8	1,090.7	443.8	536.5
Nonpersonnel	138.8	160.5	225.6	259.3
<b>SAVING (DEFICIT)</b>	<b>405.2</b>	<b>541.6</b>	<b>433.6</b>	<b>438.3</b>
<b>Capital expenditures</b>	<b>560.4</b>	<b>573.0</b>	<b>240.9</b>	<b>1,198.5</b>
Capital investments	251.6	400.8	198.8	1,027.3
Financial investments	308.8	172.2	42.1	121.2
<b>SURPLUS (DEFICIT)</b>	<b>(155.2)</b>	<b>(31.4)</b>	<b>192.7</b>	<b>(710.2)</b>
<b>Financing</b>	<b>155.2</b>	<b>31.4</b>	<b>(192.7)</b>	<b>710.2</b>
Borrowings	63.2	100.6	154.8	670.9
Debt repayments	(63.2)	(88.8)	(171.7)	(113.4)
Other (net)	155.2	19.6	(175.8)	152.7

- 4.21 The institutional development component is intended to ensure that despite the institutional shortcomings of the municipalities, the program can be carried out satisfactorily within the period established for its execution. The sanitation and electric power companies are also in good economic and financial shape, which will permit them to repay their debts under the program and to cover the counterpart funding requirements for execution of the works.
- 4.22 The municipalities will have sufficient funds to carry out investments under the program and to repay their subloans, provided the program eligibility criteria are applied, they implement the cost-recovery mechanisms established, and they achieve the fiscal targets projected on the basis of their fiscal potential.

C. Targeting of the program to low-income groups

- 4.23 The program's focus was determined by taking a count, through surveys of prospective beneficiaries, of low-income persons that stand to benefit from 114 projects in the representative sample. <sup>1/</sup> The results of this exercise suggest that about 72% of the beneficiaries fall into the low-income category. It is expected that the rest of the program will resemble the sample, and therefore the program can be considered to be poverty-targeted under the terms of paragraph 2.15 of the Eighth Replenishment document (AB-1704).

D. Program risks

- 4.24 As mentioned earlier, the municipalities in Paraná are mobilizing, in the form of own resources, approximately 25% of their fiscal potential, which is a low figure. The tax-sharing formulae for distributing both federal and state taxes are the main stumbling blocks. Tax reform for the entire country is currently being discussed in the Brazilian Congress, including fiscal relations among the different levels of government, which will augment the fiscal potential of the municipalities. Should the reforms not be introduced in a timely fashion, the benefits of the program from better federal, state, and municipal fiscal relations may be affected. To minimize this risk, the program commits the participating municipalities to recover the costs of the projects financed and achieve targets with respect to the mobilization of funds compatible with their potential, and provides for the FDU's funds to be distributed in response to local fiscal effort and spending efficiency. The Bank will evaluate progress in this regard at the annual review meetings.
- 4.25 Institutional and operational shortcomings, as well as staff complements and structures, pose problems for effective management of services on the local level. The strengthening of associations of municipalities, which will provide support for the improvements in local capacity and the administrative reforms envisaged in the program, should minimize these risks.

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<sup>1/</sup> The poverty line is R\$91 per capita per month in June 1994 prices.

**GOVERNMENT OF THE STATE OF PARANÁ**

**STATE DEPARTMENT OF URBAN DEVELOPMENT**

**PROGRAM TO SUPPORT URBAN DEVELOPMENT IN THE STATE OF PARANÁ**

**OPERATING REGULATIONS**

**(Preliminary version)**

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## I. PURPOSE AND DEFINITIONS

### A. Purpose

- 1.1 The purpose of these regulations is to establish the terms and conditions that will govern execution of the components in the institutional development and strengthening and investment subprograms that form part of the program to support urban development in the state of Paraná and define the relations between the financing agencies, executing agencies, and participants, in addition to the criteria and rules for financing, eligibility, and program execution.

### B. Definitions

- 1.2 The following definitions apply for the purposes of these regulations:

#### 1. Participating entities

##### IDB

Inter-American Development Bank, as international financing agency.

##### BORROWER

The Government of the State of Paraná.

##### SEDU

Secretaria de Estado de Desenvolvimento Urbano [State Department of Urban Development], as executing agency.

##### UNIDADE DE GERENCIAMENTO [Management Unit] (UG/SEDU)

The unit within SEDU responsible for general program management, coordination, and monitoring (supervising and auditing) of program activities involving eligible state agencies.

##### SEFA

Secretaria de Estado da Fazenda [State Department of Finance], the state body responsible for financial execution of the state budget.

##### SEPL

Secretaria de Estado de Planejamento e Coordenação Geral [State Department of Planning and General Coordination], the state body responsible for coordination and preparation of the state budget and budget guidelines.

##### BANESTADO

Banco do Estado do Paraná S.A., as the state financial agent for the Program, which will be responsible for financial execution of the FDU.



**FAMEPAR**

Fundação Instituto de Assistência aos Municípios do Estado do Paraná [State Municipal Assistance Foundation], as the monitoring unit, which will be responsible for monitoring and technical assistance for the municipalities and the associations of municipalities, accounting control of the Fundo Estadual de Desenvolvimento Urbano (FDU), and for management and implementation of the subprogram for institutional development and strengthening.

**SEMA/IAP**

Instituto Ambiental do Paraná [Paraná Environmental Institute] (IAP), as executing agency for the state's environmental policy, with ties to the Secretaria de Estado do Meio Ambiente [State Department of Environmental Affairs] (SEMA), will be responsible for the environmental analysis of projects and issuance of the related environmental permits.

**ELIGIBLE STATE AGENCIES (participating agencies):**

SESA, COPEL, SANEPAR, and IAP.

**SESA**

Secretaria de Estado da Saúde [State Department of Health] will be a participant and executing agency for state projects.

**COPEL**

Companhia de Energia Elétrica do Paraná [Paraná Electric Power Company] will be a participant and executing agency for the state project LIG-LUZ Urbano.

**SANEPAR**

Companhia Paranaense de Saneamento [Paraná Sanitation Company] will be a participant and executing agency for state projects.

**ASSOCIATIONS OF MUNICIPALITIES**

Nonprofit entities whose members are municipalities in the different geographic regions of the state of Paraná.

**ELIGIBLE MUNICIPALITIES (participating entities)**

All municipalities in the state of Paraná, with the exception of the municipality of Curitiba.

**FDU**

Fundo Estadual de Desenvolvimento Urbano [State Urban Development Fund] established under State Law 8917/88 and regulated under Decree 5192/89, into which the loan proceeds and the state counterpart for the Program will be paid.

## 2. Terms used in the Program

### PROGRAM

Program to support urban development in the state of Paraná (*Paraná Urbano*), financed with international borrowings and state and municipal counterpart funds.

### SUBPROGRAM

The series of state and municipal projects eligible for financing under the Program.

### COMPONENT

The series of areas for technical assistance or investment included in the subprograms.

### SUBCOMPONENT

The subdivision of a component.

### PROJECT

Works executed or a service provided under the Program.

### BENEFICIARIES

Low-income families whose monthly income is less than R\$437.

### SPECIAL AREAS

Areas defined as priorities in the plan of the Government of the State of Paraná: (i) metropolitan region of Curitiba (municipalities belonging to the Association of Municipalities of the Metropolitan Region of Curitiba, with the exception of the Municipality of Curitiba; (ii) northern corridor (municipalities of Apucarana, Arapongas, Cambé, Ibiporã, Londrina, Mandaguari, Marialva, Maringá, Paçandú, Rolândia, and Sarandi); (iii) Paraná coastal region (municipalities belonging to the Association of Municipalities of the Paraná Coast); (iv) west coast (municipalities of Foz do Iguaçu, Guaira, Itaipulândia, Marechal Cândido Rondon, Mercedes, Missal, Pato Branco and Santa Helena); southern region (municipalities belonging to the Association of Municipalities of Southern Paraná and the municipalities of Porto Amazonas, Rio Negro and Lapa); and northwest (municipalities belonging to the Association of Municipalities of Northwest Paraná and the Entre Rios Association of Municipalities).

### DEVELOPMENT CORRIDOR

The corridor linking the interior regions of the state, formed by the polygon of communications links between the cities of Ponta Grossa, Londrina, Maringá, Cascavel, Guarapuava, and Ponta Grossa.

### MAIN CITIES IN THE DEVELOPMENT CORRIDOR

Cascavel, Guarapuava, Londrina, Maringá, and Ponta Grossa.

SECONDARY CITIES IN THE DEVELOPMENT CORRIDOR

Apucarana, Arapongas, Cambé, Ibiporã, Jandaia do Sul, Rolândia, Sarandi and Telêmaco Borba.

LOAN

IDB financing, on the terms set forth in loan contract number \_\_\_\_\_ dated \_\_\_\_\_, whose proceeds will make up the FDU account for the Program.

SUBLOAN

Loan granted by the State of Paraná, with FDU resources, to an eligible municipality or state agency, in accordance with these regulations, to finance the Program's projects.

PROGRAM AGREEMENT (*Convênio de Adesão*)

Agreement signed by the State, through SEDU, and the municipalities, wherein the latter express their agreement with the criteria established for their admission to the Program.

SEDU-MUNICIPALITY AGREEMENT

The agreement between SEDU and an eligible municipality, establishing the conditions for participation by that municipality in the Program and the criteria for program execution.

SEDU-FAMEPAR AGREEMENT

The agreement between SEDU and Fundação Instituto de Assistência aos Municípios do Estado do Paraná, in which FAMEPAR will be delegated certain support functions under the Program.

AGREEMENTS BETWEEN SEDU AND STATE AGENCIES

The agreements between SEDU and SESA, COPEL, and SANEPAR, establishing the conditions for participation by those state agencies in the Program and the criteria for program execution.

AGREEMENT BETWEEN SEDU AND SEMA/IAP

The agreement between SEDU and SEMA/IAP, whereby the latter agree to support the Program in environmental aspects.

AGREEMENTS BETWEEN SEDU AND THE ASSOCIATIONS OF MUNICIPALITIES

The agreements between SEDU and the associations of municipalities of the state of Paraná, whereby the latter agree to support the municipalities under the Program.

SUBLOAN CONTRACT

Contract between BANESTADO and an eligible municipality or state agency, governing the concession of subloans.

## II. PROGRAM OBJECTIVES AND DESCRIPTION

### A. Objectives

- 2.1 The general objective of the Program is to support the municipalities of the state of Paraná in improving the quality of life of their residents, particularly low-income groups, and to assist the government of the state in its urban job creation and service delivery strategy.
- 2.2 To attain this objective, the Program will promote:
- a. the development and strengthening of individual municipalities, associations of municipalities, and the state agencies in charge of or involved in institutional, financial, and technical aspects of urban development in order to improve their efficiency and expand the coverage of the services they provide;
  - b. improvements in the fiscal efficiency of the municipalities through perfecting the system for transfer payments (revenue share-outs) from the state government to the municipalities, cost recovery, rationalization of spending, and administrative reform;
  - c. mechanisms to ensure that resources are allocated transparently, reducing discretionality;
  - d. fuller participation by organized civil society in determining priorities for municipal investments and in their execution and evaluation; and
  - e. rehabilitation, expansion, and construction of municipal and state works whose direct beneficiaries are municipalities.

### B. Program description

- 2.3 The Program will consist of institutional development and strengthening and investment subprograms to finance projects in priority urban development areas and municipal infrastructure.

#### 1. Institutional development and strengthening subprogram

- 2.4 The object of this subprogram is to boost the efficiency of the agencies responsible for planning and implementing municipal urban development policies and for the selection, financing, supervision, and evaluation of investment projects in this area. This subprogram includes the following components:

a. Institutional development component

- 2.5 The aims of this component are (i) to improve municipal administration, seeking greater efficiency and rationalization of spending; (ii) to encourage the mobilization of municipal resources; and (iii) to support the institutional development of FAMEPAR/FDU.

b. Institutional strengthening component

- 2.6 This component will improve the management, technical, and administrative capacity of the associations of municipalities, the Instituto Ambiental do Paraná and the State Department of Health and establish minimum benchmarks as targets to be achieved. Consideration will be given to the organizational structure and financial, technical, and administrative capacity of the agencies receiving funds from the loan to provide services in their jurisdictions.

- 2.7 This subprogram may finance:

- a. Consulting services to support actions for the institutional strengthening and development of municipalities, state agencies, SEDU, FAMEPAR, and associations of municipalities, and to execute the Program.
- b. Consulting services for financial auditing and management of the Program.

2. Investment subprogram

- 2.8 This subprogram includes the following components: (i) support for microentrepreneurs and small producers; (ii) targeted social services; and (iii) basic services. The following may be financed under the subprogram:

- a. rehabilitation, expansion, and construction of municipal and state works;
- b. studies, designs, evaluation, and supervision of the works financed;
- c. procurement of goods necessary for municipal services, if there are no other projects available to finance these sectors.

- 2.9 Municipalities that are not eligible for the investment subprogram may only participate in the institutional development and strengthening subprogram for the purpose of remedying a situation detected in the corresponding component, i.e. in aspects one in which a municipality does not meet the benchmarks established.

### III. APPORTIONMENT OF PROGRAM FUNDS

- 3.1 Program funds will be allocated by the Fundo Estadual de Desenvolvimento Urbano (FDU) and will be distributed in accordance with the general rules and the procedures described below.
- 3.2 Funds will be distributed to the municipalities through quotas established as follows:
  - a. Initially 50% of the funds will be distributed based on the following criteria:
    - (i) per capita, based on the urban population of the municipalities;
    - (ii) US\$1.2 million for the main cities in the development corridor and US\$0.5 million for the secondary cities in the corridor;
    - (iii) US\$1.4 million for special areas.
  - b. The remaining 50% will be distributed after June 30, 1997, on the basis of the following criteria, *inter alia*: efficiency in use of the funds initially distributed, spending efficiency, fiscal effort, and compliance with the targets established for municipal projects and for performance indicators. Additional funds will be allocated for administrative reforms, streamlining of payrolls, including downsizing agreements and severance packages and retraining to enable surplus staff to join the labor market, and training for the remaining personnel.
  - c. If the funds distributed originally have not been committed by June 30, 1997, they will be added to the 50% mentioned in point b above. Funds are deemed to have been committed when a contract has been signed for the execution of works, provision of services, or procurement of goods.
- 3.3 For the state agencies, the funds will be distributed in accordance with the following criteria:
  - (i) SESA must demonstrate that it has sufficient counterpart funds.
  - (ii) COPEL and SANEPAR must comply with Central Bank Resolution 818/83 regarding their borrowing capacity; demonstrate that revenues received from charges for their services are sufficient to cover their operating, administrative, and maintenance costs and debt service on the subloan and other loans; and be up to date in compliance with the clauses of earlier contracts.

- 3.4 The funds will be distributed as follows:
- a. Initially, 50% of the funds will be released.
  - b. The remaining 50% will be made available to the participating state agencies that have committed 100% of their initial quotas. Funds are deemed to have been committed when a contract has been signed for the execution of works, provision of services, or procurement of goods.
  - c. If the funds distributed originally have not been committed by June 30, 1997, the uncommitted balances will be canceled, and the funds will be added to the undistributed amount under point b of this paragraph.
- 3.5 Funds for the development and strengthening of the organizational structure of the municipalities and state agencies participating in the Program, and for the training and development of human resources, will be nonreimbursable, and account for 80% of the cost of each project. The remaining costs will be covered by the municipalities and state agencies participating in the Program.

#### IV. ELIGIBILITY CRITERIA

##### A. Municipalities

- 4.1 Except for the municipality of Curitiba, the other municipalities in the state of Paraná will be eligible to participate in the Program provided they:
- a. demonstrate borrowing capacity in terms of the rules established by the Brazilian Senate (Resolution 11/94);
  - b. present authorization in the form of a municipal edict authorizing them to obtain subloans;
  - c. present a 1:1 or better ratio of current revenue to current expenditure; in calculating this ratio, transfers from the federal and state governments under current legislation will be considered as revenue, but discretionary transfers (not included in current legislation) will not be counted; municipalities that do not attain this ratio will have to apply for funds for administrative reform to be executed in tandem with the investment subprogram; and
  - d. are up to date in complying with the clauses contained in earlier contracts financed by the Program or any other earlier financing granted through the FDU.

B. State agencies

- 4.2 SESA, SANEPAR, and COPEL will be eligible to participate in the Program, provided they set aside funds in their budgets. In addition, COPEL and SANEPAR must:
- a. comply with Central Bank Resolution 818/83 regarding their borrowing capacity;
  - b. demonstrate that revenues from charges for their services is sufficient to cover their operating, administrative, and maintenance costs;
  - c. demonstrate that they have the financial capacity to cover the debt service on the subloan and other loans, and the counterpart funds necessary to execute the project and the other works for which they are responsible;
  - d. demonstrate that they have complied with the clauses in earlier contracts for loans granted through the FDU; and
  - e. present a clearance certificate from the Audit Office of the State of Paraná.

C. The projects

- 4.3 Initially, the projects mentioned below will be eligible under the investment subprogram.

1. Basic urban services component

- 4.4 **Public lighting subcomponent:** investments in civil works and equipment to rehabilitate, upgrade, expand, or construct different components in the public lighting system and connections to single-family residences.
- 4.5 **Road system subcomponent:** paving of city streets, overpasses and bridges for traffic distribution and services to open city streets, road signage, drainage, and storm sewers.
- 4.6 **Transportation subcomponent:** investments in civil works, studies and technical assistance for the upgrading, rehabilitation, expansion, or construction of terminals for urban and intercity freight and passenger traffic, including facilities for passenger access, parking, internal roadways, and installations for administration and commercial establishments.
- 4.7 **Environmental control subcomponent:** works to address critical flooding in urban areas, protection against flooding, silting, and wind and water erosion that endangers the public. Also includes human resettlement programs and resettlement components in other works projects.



- 4.8 Sanitation subcomponent: construction, expansion, and improvements in water intake, treatment, and supply systems, collection and disposal of household wastewater, and the necessary equipment.
- 4.9 Solid waste subcomponent: studies, works, and equipment for the collection and final disposal of solid waste.
- 4.10 Other sectors and types of projects may be included after the IDB has analyzed at least one project in a new area or of a new kind and has authorized its inclusion.
- 4.11 The projects must also comply with the technical, economic, financial, and environmental eligibility criteria indicated in the following table, whose details are presented in the project manual.

2. Targeted social services component

- 4.12 Social assistance subcomponent: investments in civil works, equipment, studies, and technical assistance to rehabilitate, upgrade, expand, or construct facilities for school and preschool children and adolescents, installations for transportation and assistance for city-dwelling workers who commute to rural areas for seasonal work (*bóias-frias*) and facilities for community meetings and activities.
- 4.13 Culture, recreation, and sports subcomponent: investments in civil works, equipment, studies, and technical assistance to rehabilitate, upgrade, expand, or construct green areas in cities and spaces for active and passive recreation, as well as sports equipment and facilities for cultural events including fairs and exhibitions.
- 4.14 Health care subcomponent: investments in civil works, equipment, studies, and technical assistance to rehabilitate, upgrade, expand, or construct public health care facilities, in addition to laboratory and pharmaceutical services and procurement of basic medication kits.

3. Component for support for microentrepreneurs and small producers

- 4.15 Subcomponents involving production, industry and commerce: investments in civil works, equipment, studies, and technical assistance to rehabilitate, upgrade, expand, or construct installations to increase productive activities in the municipalities - construction of industrial and commercial buildings offering basic facilities, and construction and equipping of units to process agricultural products.

# **LIABILITY CRITERIA BY PROJECT AND SECTOR**

PROJECT	TECHNICAL	ECONOMIC	FINANCIAL	ENVIRONMENTAL
<b>For microentrepreneurs and small producers</b>				
Buildings offering	<ul style="list-style-type: none"> <li>- Observance of land-use zoning</li> <li>- Compatibility of the building with its function</li> <li>- Construction methods</li> </ul>	<ul style="list-style-type: none"> <li>- Market study</li> <li>- Private analysis</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through rentals</li> <li>- Rents determined on basis of loan interest rate</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation mangrove swamps, conserved land with grades over 30%</li> <li>- Water analysis for own use</li> <li>- Ensure collection and disposal of household and industrial waste</li> </ul>
Buildings facilities exhibit hall	<ul style="list-style-type: none"> <li>- Observance of land-use zoning</li> <li>- Compatibility of the building with its function</li> <li>- Construction methods</li> </ul>	<ul style="list-style-type: none"> <li>- Market study</li> <li>- Private analysis</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through rentals</li> <li>- Rents determined on basis of loan interest rate, for commercial facilities</li> <li>- Cost recovery through entrance fees, rental of space, exhibition areas, and other items for commercial exhibit hall</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation mangrove swamps, conserved land with grades over 30%</li> <li>- Water analysis for own use</li> <li>- Ensure collection and disposal of household and industrial waste</li> <li>- Obey standards for stable livestock enclosures, where applicable</li> </ul>
Production processing storage facility	<ul style="list-style-type: none"> <li>- Analysis of alternative locations</li> <li>- Compatibility of the building with its function</li> <li>- Construction methods</li> <li>- Observance of sanitary legislation in the case of slaughterhouses</li> </ul>	<ul style="list-style-type: none"> <li>- Market study</li> <li>- Private analysis</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through charges for services and sales of products</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation mangrove swamps, conserved land with grades over 30%</li> <li>- Water analysis for own use</li> <li>- Ensure collection and disposal of household and industrial waste</li> <li>- Present a basic environmental impact study (RAAS) and a permit for slaughterhouses</li> <li>- Present a project for tree planting around the construction terminal</li> </ul>

# ELITYCRITERIA BY PROJECT AND SECTOR

PROJECT	TECHNICAL	ECONOMIC	FINANCIAL	ENVIRONM
ocial services				
upport for kers (CATV) center (CCI) th center d vehicles	<ul style="list-style-type: none"> <li>- Coherence between scale and demand</li> <li>- Analysis of alternative locations, given user population</li> <li>- Compatibility of the building with its function</li> <li>- Building construction method</li> <li>- For day nurseries and PIAs, proximity to schools and health posts whenever possible</li> <li>- Minimum area: 3.5 m<sup>2</sup>/child in day nurseries and 1.2 m<sup>2</sup>/beneficiary</li> <li>- For CATVs, location in towns with large numbers of rural laborers</li> <li>- Adaptation of model projects or existing buildings to space-use criteria</li> <li>- Inclusion of all equipment and human resources for operations</li> </ul>	<ul style="list-style-type: none"> <li>- Least-cost solution</li> <li>- Maximum cost of US\$460/m<sup>2</sup> for construction and US\$790/child/year for nursery facilities</li> <li>- US\$210/m<sup>2</sup> for construction and US\$80/beneficiary/year for CCIs</li> <li>- US\$15/m<sup>2</sup> for construction and US\$370/beneficiary/year for PIA centers</li> <li>- US\$335/m<sup>2</sup> for construction without food production equipment, and US\$530/m<sup>2</sup> including food production equipment</li> <li>- US\$365/beneficiary/year without food production equipment and US\$860/beneficiary/year with food production equipment for CATVs</li> </ul>	<ul style="list-style-type: none"> <li>- The funds needed for cost recovery will be provided out of municipal budgets</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragi</li> <li>- sources, pine reforestat</li> <li>- mangrove swamps, cons</li> <li>- land with grades over 3</li> <li>- Water analysis for own</li> <li>- Ensure collection and o</li> <li>- household waste</li> </ul>
m, and sports r m	<ul style="list-style-type: none"> <li>- Coherence between scale and demand</li> <li>- Compatibility of the building with its function</li> <li>- Building construction method</li> <li>- Location close to accesses and to the user population</li> <li>- In the case of sports equipment, present the municipal sports and recreation plan</li> <li>- Availability of equipment and human resources to carry out the function</li> <li>- Maximum of 2,500 places per mini-gymnasium</li> </ul>	<ul style="list-style-type: none"> <li>- Maximum of US\$500/m<sup>2</sup> for mini-gymnasiums</li> <li>- Maximum of US\$3.50/person for sports fields</li> <li>- US\$450/m<sup>2</sup> for cultural centers and US\$350/m<sup>2</sup> for public squares</li> </ul>	<ul style="list-style-type: none"> <li>- The funds needed for cost recovery will be provided out of municipal budgets</li> <li>- For cultural centers, recover investment, operating, and maintenance costs</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragi</li> <li>- sources, pine reforestat</li> <li>- mangrove swamps, cons</li> <li>- land with grades over 3</li> <li>- Water analysis for own</li> <li>- Ensure collection and o</li> <li>- household waste</li> </ul>

# **QUALITY CRITERIA BY PROJECT AND SECTOR**

PROJECT	TECHNICAL	ECONOMIC	FINANCIAL	ENVIRONMENTAL
<b>Health services</b>				
Water supply, pharmacy, health kit	<ul style="list-style-type: none"> <li>- Present the municipal health plan</li> <li>- No similar equipment available</li> <li>- Analysis of alternative locations</li> <li>- Compatibility of the building with its function and the use of space</li> <li>- Construction methods and rehabilitation or adaption of model projects or existing buildings in the case of reforms</li> </ul>	<ul style="list-style-type: none"> <li>- Least-cost solution</li> </ul>	<ul style="list-style-type: none"> <li>- The funds needed for cost recovery will be provided out of municipal budgets</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation, mangrove swamps, conserve land with grades over 30%</li> <li>- Water analysis for own supply</li> <li>- Ensure collection and disposal of household waste and of other waste when pertinent</li> </ul>
<b>Urban services</b>				
Street lighting, Zoning	<ul style="list-style-type: none"> <li>- Observe COPEL standards for different street types</li> <li>- For LIG-LUZ, serve low-income populations in the outskirts living in dwellings of up to 50 m<sup>2</sup></li> <li>- Availability of a reliable electric power source</li> </ul>	<ul style="list-style-type: none"> <li>- For street lighting, least-cost solution and benefit/cost analysis with an IRR of 12% or over</li> <li>- Benefit families with monthly incomes of up to 3 minimum wages or up to 0.8 minimum income (minimum wage + bonus) per inhabitant in the case of LIG-LUZ</li> </ul>	<ul style="list-style-type: none"> <li>- Demonstrate that revenue from charges for public lighting is at least equal to total costs for operation and maintenance, expansion of the existing public lighting system, and incremental costs (including investments) for the proposed projects</li> <li>- Cost recovery from charges for electricity in the case of the beneficiaries of LIG-LUZ</li> </ul>	
Urban paving, Urban services	<ul style="list-style-type: none"> <li>- Situation analysis justifying the need for the works</li> <li>- Demonstrate coherence with the master land-use plan or guidelines for urban expansion</li> <li>- Present a report on the situation of city streets (objective and context); function of the street, type of paving, and beneficiaries</li> <li>- Comparative study of the structural design and type of pavement and coherence with the technical solution best suited to local needs</li> <li>- Technical design adhering to general DER standards</li> <li>- Existence of a potable water system and storm sewers</li> <li>- Study of technical capacity for bridges/overpasses</li> </ul>	<ul style="list-style-type: none"> <li>- Least-cost solution</li> <li>- Benefit/cost analysis with an IRR of 12% or over for paving of nonlocal urban streets and bridges/overpasses</li> <li>- Cost-efficiency criteria for local street paving</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through a betterment levy charged to the beneficiaries equivalent to a minimum of 70% of the cost of the investment in the case of paving for local streets</li> <li>- Cost recovery resources will come from municipal governments in the remaining cases</li> </ul>	<ul style="list-style-type: none"> <li>- Construction of storm sewers, sections to be paved</li> <li>- For bridges and overpasses, replace plant cover</li> </ul>

# **QUALITY CRITERIA BY PROJECT AND SECTOR**

PROJECT	TECHNICAL	ECONOMIC	FINANCIAL	ENVIRONMENTAL
<b>Transportation services</b>				
Transportation	<ul style="list-style-type: none"> <li>- Comply with the master land-use plan or guidelines for urban expansion</li> <li>- Coherence between scale and demand, study on frequency and the availability of services and specific regional needs</li> <li>- Analysis of alternative locations</li> <li>- Compatibility of the building with its function</li> <li>- Building construction methods adhering to DER general standards</li> <li>- Compliance with maintenance standards in the case of equipment</li> </ul>	<ul style="list-style-type: none"> <li>- Least-cost solution</li> <li>- Benefit/cost analysis with an IRR of 12% or over, in the case of urban transport terminals</li> <li>- Private analysis for intercity transportation terminals</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through boarding tax and rental of commercial space in the case of intercity terminals</li> <li>- Cost recovery through transfers to the municipality of a percentage of bus fares to be calculated on a case-by-case basis</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation, mangrove swamps, coastal land with grades over 30%</li> <li>- Water analysis for own use</li> <li>- Ensure collection and disposal of household and industrial waste</li> </ul>
<b>Urban services and the environment</b>				
Urban services	<ul style="list-style-type: none"> <li>- Hydrological and soil studies</li> <li>- Alternative solutions and materials</li> <li>- Analysis of flooding recurrence, when pertinent</li> <li>- For relocation, compilation of basic information, preparation of resettlement plans, and definition of administrative responsibilities and the qualified staff needed to manage and monitor resettlement operations, and cost definition</li> </ul>	<ul style="list-style-type: none"> <li>- Benefit/cost analysis with an IRR of 12% or over</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through betterment levies on beneficiaries, limited to property assessments in the project's area of influence in the case of the reclamation of degraded areas</li> <li>- Betterment levy equal to 100% of the cost of investments for control of urban erosion</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation, mangrove swamps, coastal land with grades over 30%</li> <li>- Water analysis for own use</li> <li>- Ensure collection and disposal of household waste</li> </ul>
Urban services	<ul style="list-style-type: none"> <li>- Evaluation of systems based on municipal sanitation plans</li> <li>- Comparative study of the proposed solutions</li> <li>- Study of alternatives with similar efficiency in the case of sewage</li> <li>- Evaluation of the impact of discharges into receiving bodies</li> </ul>	<ul style="list-style-type: none"> <li>- Benefit/cost analysis with an IRR of 12% or over</li> <li>- Cost efficiency in the case of sewage collection/treatment</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through water and sewerage charges to beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation, mangrove swamps, coastal land with grades over 30%</li> </ul>
Urban services	<ul style="list-style-type: none"> <li>- Compliance with operating standards for solid waste collection and disposal systems</li> <li>- Comparative study of the type of solution and analysis of alternative solutions</li> </ul>	<ul style="list-style-type: none"> <li>- Benefit/cost analysis with an IRR of 12% or over</li> <li>- Cost efficiency in the case of waste collection/treatment</li> <li>- Least-cost solution</li> </ul>	<ul style="list-style-type: none"> <li>- Cost recovery through charges for trash collection to beneficiaries and the sale of recycled byproducts</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid ecologically fragile sources, pine reforestation, mangrove swamps, coastal land with grades over 30%</li> </ul>

## V. PROGRAM IMPLEMENTATION PROCEDURES

- 5.1 The Program will be publicized at regional events, including technical meetings, and sessions for training, information on guidelines, and distribution of the operating manuals, in which all the agencies directly involved in the Program will participate (SEDU, FAMEPAR, SESA, COPEL, SANEPAR, associations of municipalities, and municipalities).
- 5.2 The agreements referred to in the following paragraph will be formalized during those events.
- A. Program agreement (Convênio de Adesão)
- 5.3 Interested municipalities will sign program agreements with SEDU, stating their interest in participating in the Program, including a commitment to comply with the terms of the present regulations and the other applicable program documents.
- B. Conditions precedent to execution of specific agreements with the municipalities
- 5.4 Prior to signature of specific agreements by SEDU and eligible municipalities, the following conditions must be met:
- (i) execution of the program agreement between the municipality and SEDU;
  - (ii) compliance with the eligibility requirements mentioned in paragraph 4.1 of these regulations;
  - (iii) presentation of budget guidelines, duly approved by the city council;
  - (iv) preparation of a summary of priority investments included in the municipal budget guidelines;
  - (v) presentation of a project for allocating municipal counterpart funds, subject to the operating procedures set forth in these regulations.
- 5.5 Once the information mentioned in sections (i) to (v) above has been presented and on the basis of the share of program funds for a particular municipality, SEDU, in consultation with that municipality, will issue a revised summary review of priority investments eligible in a given year.

C. Agreements with municipalities

5.6 SEDU will sign an agreement with each eligible municipality in which the municipality commits itself to:

- a. present a legal instrument demonstrating that a municipal management unit, with a legal representative, has been established;
- b. comply with the requisites and criteria contained in these regulations;
- c. abide by the technical guidelines relating to execution, monitoring, supervision and inspection of the works, conservation and use of natural resources and the environment, including presentation to SEDU of environmental permits for projects requiring them;
- d. ensure that the goods and services financed under the Program will be used exclusively for the respective project;
- e. implement, in accordance with the timetable and targets established, all the recommendations made by SEDU/FAMEPAR for the institutional development component;
- f. attain at least 80% of the targets set forth in the financial evaluation of projects to increase municipal fiscal effort;
- g. adopt suitable measures with regard to tariffs, fees, taxes, betterment levies, etc., in order to attain the agreed operating efficiency benchmarks;
- h. operate, manage, and maintain the physical infrastructure of the works, equipment, or other assets and goods constructed or procured with program funds, in accordance with the applicable technical standards and, for that purpose, present a plan for their operation and maintenance for the three years following their delivery;
- i. provide the municipal counterpart funds for project execution;
- j. comply with the disbursement mechanism described in the program documents;
- k. authorize SEDU to suspend disbursements or declare the debt due and immediately payable, if the municipality fails to comply with any of the obligations it has assumed in the contracts signed with the state;
- l. authorize SEDU to suspend disbursement if the IDB suspends SEDU's right to utilize the loan proceeds;

- m. authorize the associations of municipalities, SEDU, and the IDB to inspect the project and allow them free access to works, premises, and relevant accounting and technical documentation;
- n. sign agreements with the respective association of municipalities, delegating to it responsibility for conducting the bidding for projects, in the event the municipality is unable to do so;
- o. take the steps necessary to ensure that the contracts for works and services and procurement of goods comply with the tendering rules and other requirements contained in the program documents;
- p. supervise and inspect execution of the works and services financed under the Program;
- q. sign a management contract which may include third parties, concessions, or other modalities, to ensure that program funds are put to the intended use and that physical infrastructure, equipment, and other assets of the projects executed with program funds are administered, operated, and maintained in accordance with the applicable technical standards;
- r. observe the cost recovery criteria and targets for each project and demonstrate that revenues from the sale of services cover the operating, maintenance, and administrative costs of the services, as a minimum;
- s. keep the project's accounts up to date, on the basis of the Program's chart of accounts, and make them available for review and inspection by the associations of municipalities, SEDU, the IDB, and external auditors;
- t. have legal possession of the land where works are to be built;
- u. present semiannual progress reports to the respective association of municipalities, in accordance with the supervision manual;
- v. provide the beneficiaries with information on the different aspects of the projects, including cost recovery.

D. Agreement with FAMEPAR

- 5.7 SEDU and FAMEPAR will sign an agreement which includes the following commitments:
- a. discharge the responsibilities delegated by SEDU for execution of certain program components;



- b. comply with the requisites and obligations contained in these regulations;
- c. maintain the accounts of each project for which it is responsible in accordance with the Program's chart of accounts, and make them available for review and inspection by SEDU and the IDB;
- d. present the accounting and financial audits of each project for which it is responsible, on the basis of the Program's chart of accounts, to SEDU annually during program execution;
- e. utilize the goods and services financed under the Program exclusively for the project for which it is responsible;
- f. utilize the disbursement mechanism set forth in program documents;
- g. authorize SEDU and the IDB to inspect the projects for which it is responsible, allowing them free access to the works, premises, and related accounting and technical documentation;
- h. operate, administer, and maintain the physical infrastructure of the works, equipment, and other goods contracted or procured with program funds, in accordance with the applicable technical standards and, for that purpose, present a plan for their operation and maintenance for the three years following their delivery;
- i. present SEDU with monthly progress reports on the projects and semiannual monitoring reports;
- j. take steps to ensure that contracts for goods, works, and the provision of the services for which it is responsible or which it is to supervise comply with the Program's tendering requirements;
- k. adequately inspect and supervise delivery of the services financed under the Program.

E. Agreements with participating state agencies

- 5.8 Once the eligibility requirements described in paragraph 4.2 of these regulations have been complied with, SEDU and the state agencies (SESA, COPEL, and SANEPAR) will sign agreements including the following commitments on the part of the agencies:
- a. present an annual investment plan;
  - b. present a legal instrument demonstrating that a sector management unit, with a legal representative, has been established;

- c. comply with the requisites and obligations set forth in these regulations;
- d. make the rate adjustments needed to attain acceptable operating efficiency levels;
- e. maintain up-to-date accounts of each project in accordance with the Program's chart of accounts, and make them available for review and inspection by SEDU and the IDB;
- f. present SEDU with the following annual reports during the Program, prepared by independent external auditors: (i) accounting and financial reports for each project based on the Program's chart of accounts; and (ii) in the case of COPEL and SANEPAR, the companies' accounting and financial reports;
- g. abide by the technical guidelines relating to execution, monitoring, supervision and inspection of the works, and conservation and use of natural resources and the environment, including presentation to SEDU of environmental permits for projects requiring them;
- h. use the goods and services financed under the Program exclusively for the projects for which they are intended;
- i. utilize the disbursement mechanism set forth in program documents;
- j. authorize SEDU to suspend disbursements or declare the debt due and immediately payable, if the state agency fails to comply with any of the obligations in the contracts signed with SEDU under the Program;
- k. authorize SEDU to suspend disbursement if the IDB suspends SEDU's right to utilize the loan proceeds;
- l. authorize SEDU and the IDB to inspect the projects and allow them free access to works, premises, and relevant accounting and technical documentation;
- m. operate, administer, and maintain the physical infrastructure of the works, equipment, and other assets or goods constructed or procured with program funds in accordance with the applicable technical standards, and for that purpose, present a plan for their operation and maintenance for the three years following their delivery;
- n. present SEDU with monthly progress reports on the projects and semiannual monitoring reports;

- o. take steps to ensure that contracts for goods, works, and services comply with the Program's tendering requirements;
- p. adequately inspect and supervise execution of the works and the delivery of the services financed under the Program;
- q. issue the necessary certificates of completion of works and services;
- r. in the case of COPEL, present SEDU with a bid schedule covering a minimum period of 18 months, and a schedule for installing the equipment procured, with due regard to stock on hand and its replenishment, once 80% of the physical targets have been attained.

**F. Conditions precedent to the SEMA/IAP agreement**

- 5.9 Execution of a joint resolution by SEDU and SEMA/IAP to institute the environmental eligibility criteria, and environmental assessment instruments to be applied to the projects in the Program.

**G. Agreement with SEMA/IAP**

- 5.10 SEDU and SEMA/IAP will sign an agreement including the following commitments to be assumed by SEMA/IAP:
- a. assess the projects that require environmental permits and issue the pertinent reports;
  - b. make the specialized staff and the materials necessary to analyze projects requiring environmental permits available for the Program;
  - c. make environmental compliance inspections, when necessary;
  - d. keep records on the findings of the environmental assessment of each project and make them available for review and inspection by SEDU and the IDB.

**H. Agreements with the associations of municipalities**

- 5.11 Agreements will be signed by SEDU and each of the associations of municipalities, including the following commitments by the associations:
- a. analyze the eligibility of each municipality to receive program funds;
  - b. maintain a technical unit adequately staffed and equipped to carry out the commitments;

- c. conduct a prior evaluation of each project presented by the municipalities, using the project evaluation methodology determined for the Program by the IDB;
- d. periodically supervise inspections of the works executed or under way in each of the municipalities in their jurisdiction, contracting out this activity when necessary;
- e. present periodic progress reports on the works contracted by the municipalities, based on the oversight of inspections conducted;
- f. keep current files of all the documentation pertaining to the projects, including bid documents;
- g. submit to inspections by the IDB, SEDU, and independent external auditors;
- h. issue the respective certificates of completion of works and services;
- i. treat all the municipalities in their jurisdiction that comply with the program eligibility criteria equitably and impartially;
- j. inform SEDU of any situation or event that could interfere with proper program implementation;
- k. enter into agreements with the municipalities in their jurisdiction to hold bids for the procurement of goods or execution of works when, for reasons of economies of scale, it would be advisable for a group of municipalities with similar priorities to organize general calls for tenders, while maintaining the payment procedures and undertakings of each municipality, in accordance with the schedule for the delivery of goods and works.

I. Other provisions regarding agreements

- 5.12 With the approval of SEDU, modifications may be made to agreements during program execution, provided at least 30% of the works included in the original agreement (or a previously-modified agreement) have been concluded and at least 30% of the total contracted value has been disbursed.
- 5.13 With regard to formalization of the agreements described above, the participating agencies will present their projects for the pertinent technical, economic, financial, environmental, and institutional analyses, in keeping with the discretionary limits set forth in these regulations. SEDU will issue a certificate of feasibility for each project approved, for the purposes of the necessary municipal and sector financial planning.

- 5.14 SEDU will submit requests to BANESTADO to formalize the subloan contracts and open a specific account for each project that has been approved.

J. Subloan contracts

1. Operational conditions precedent

- 5.15 The following are conditions precedent for each subloan contract:

a. The municipalities must present evidence of the following:

- (i) current borrowing capacity, in accordance with the requirements established by the Brazilian Senate (Resolution 11/94);
- (ii) clearance certificate from the Audit Office of the State of Paraná;
- (iii) evidence that the necessary counterpart funds have been deposited in the project account, in accordance with the applicable schedule;
- (iv) the eligibility requirements set forth in paragraph 4.1 above;
- (v) signature of the program agreement and the specific agreement with SEDU.

b. Participating state agencies must:

- (i) have complied with the eligibility criteria set forth in paragraph 4.2; and
- (ii) have signed the specific agreement with SEDU.

2. Financial terms and conditions

- 5.16 The subloan contracts between BANESTADO and the municipalities and the participating agencies will abide by the following:

- a. Amounts are to be expressed in *reais*.
- b. The interest rate applicable to the subloans will be the "long-term interest rate" plus six percentage points, and payments are to be made monthly.
- c. The amortization period for subloans will be up to 10 years for projects involving support for microentrepreneurs and small producers and targeted social services; up to eight years for basic urban services; and up to five years for goods procured

for basic urban services, including a grace period of up to 12 months after disbursement in full, depending on the type of project, which may not extend beyond the final date for repayment of the subloan.

- d. Holders of subloans, with prior authorization from the municipal council, will put up portions of their goods and services tax (ICMS) as a guarantee of their obligations under the subloan, on an irrevocable and nonretractable basis.
- e. Should a municipality fail to comply with its obligations under the subloan on the stipulated dates, BANESTADO may retain the portions from the ICMS necessary to ensure compliance, and should BANESTADO opt not to execute this guarantee, it will continue to be responsible for paying SEDU the corresponding sum.
- f. BANESTADO will have the authority to suspend disbursements if the IDB suspends financing for the Program.

K. Discretionary limits

1. For project analysis and approval

- 5.17 The analysis and approval of projects for investments in civil works will be based on the following discretionary limits:
  - a. works and related services whose estimated initial cost is equal to US\$1 million or over - SEDU;
  - b. works and related services whose estimated initial cost is under US\$1 million but equal to or over US\$200,000 - FAMEPAR;
  - c. works and services whose estimated initial cost is under US\$200,000 - the associations of municipalities.
- 5.18 These limits will be revised by SEDU, with the Bank's approval, during the annual program evaluations.
- 5.19 The analysis and approval of projects for the procurement of goods with an initial estimated cost of under US\$350,000 will be performed by FAMEPAR, and those costing US\$350,000 and over will be the responsibility of SEDU.
- 5.20 The following is to be presented in each of the cases described above: (i) evidence that the participant has complied with the eligibility requirements; (ii) a study containing information on the objectives, location, components, and costs of the project, execution schedule and, in particular, the findings of the technical, environmental, financial, and economic analyses; and (iii) the plans, designs, specifications, and any other documentation pertaining to the definition of the project.

2. For the review of bid procedures

- 5.21 FAMEPAR will review the bid procedures for civil works and related services for municipalities where costs are up to US\$5 million, and contracts worth US\$5 million and over will be reviewed by SEDU.
- 5.22 FAMEPAR will review the bid procedures for procurement of goods for municipalities at costs of up to US\$350,000, and contracts worth US\$350,000 and over will be reviewed by SEDU.
- 5.23 SEDU will review the bid procedures for civil works involving the participating state agencies.
- 5.24 The foregoing reviews will be conducted on the basis of ex post samples. If the review is performed by FAMEPAR, it will be required to send SEDU the results of the audit, reporting on any irregularities found. SEDU will inform the IDB in its annual reports to the latter of irregularities reported to it and those it detects itself.
- 5.25 SEDU will also provide the IDB with copies of all signed contracts for the procurement of goods and related services and the execution of works.
- 5.26 SEDU will submit each step in the bid process to the IDB for prior consideration in the event that international competitive bidding is required, as well as the first complete bid process when international competitive bidding is not required.
- 5.27 The IDB will conduct such verifications as it deems appropriate. In response to irregularities of which it was informed by SEDU or irregularities it detects itself, the IDB may: (i) require that the irregularity be immediately corrected; (ii) reduce or remove the discretionary limit granted to the entity reviewing the project or bid procedure; (iii) suspend program financing for a project or a municipality.

L. Program execution

1. Tendering for construction works and goods

- 5.28 The participating agencies will prepare the bid documents in accordance with the model bid documents for the Program and will follow the IDB's tendering procedures annexed to the loan contract.

a. Forms of tendering

- 5.29 International competitive bidding will be used in all cases in which loan proceeds are used for contracts for works estimated at US\$5 million or over, and for contracts for the procurement of goods and services estimated at US\$350,000 or over.

b. International publicity

- 5.30 For construction, goods, and services contracts requiring international competitive bidding, as mentioned in the previous paragraph, a general notice containing basic information on the project and a notice regarding prequalification, registration, or invitation to bid will be printed in the United Nations' publication *Development Business* and in the local press (twice in one national newspaper with wide circulation or once in two national newspapers with wide circulation).

c. Presentation of bids

- 5.31 Bids are to be presented in two sealed envelopes. Envelope one will contain information on the financial, legal, and technical capacity of the bidder and will not refer to prices; envelope two will contain information on the bid itself and prices.

d. Opening and analysis of bids

- 5.32 The bids will be opened beginning with envelope one, in order to qualify bidders. Envelopes two will be returned to bidders who fail to qualify, and envelopes two of bidders who qualify will then be opened for award of the contract.
- 5.33 The bids will be analyzed by a committee specially appointed for this purpose, whose members may include representatives of the associations of municipalities, FAMEPAR, and SEDU. The results of the tendering and the execution schedule for municipal projects will be forwarded to the associations of municipalities, and then to SEDU; in the case of participating state agencies they will be forwarded to SEDU.

2. Selection and contracting of consulting services

- 5.34 Consulting services will be selected and contracted in accordance with the IDB procedures annexed to the loan contract.
- 5.35 Consulting services will be selected and contracted under the supervision of SEDU, which will be required to approve each step in the process in advance.
- 5.36 SEDU will send the IDB copies of the contracts signed with consulting firms and individual consultants, including the corresponding terms of reference and performance evaluations.
- 5.37 SEDU and the IDB will conduct an ex post review of the documentation and procedures followed in the selection and contracting of consulting services. SEDU will inform the IDB of the findings of its reviews and any irregularities found will be included in the annual reports it submits to the IDB. The IDB may take any of the



measures mentioned in paragraph 5.27 above in the event that irregularities are found in contracting consulting services.

**M. Disbursements and financial records**

**1. Disbursements**

- 5.38 Disbursements to participating entities will take the form of deposits made to a current account for a project as a result of duly justified requests for funds based on the financial program for each project.

**2. Justification of advances and counterpart funds**

- 5.39 For advances of funds, the participating entity will have five days counting from the date of the deposit to justify the use of funds received, through the presentation of copies of the documentation supporting the payment (for example certificates of execution and completion of a works project and the corresponding invoices) and evidence with respect to implementation of the respective project (payment orders and receipts issued by the company).
- 5.40 Requests for disbursements in recognition of costs incurred by the participating entities must include the same kind of documentation as is required to justify advances of funds.
- 5.41 Participating entities must retain all the original documentation relating to expenditures, or in the case of municipalities, forward it to the corresponding association of municipalities, and make it available to SEDU, FAMEPAR, the IDB, and external auditors.
- 5.42 All documentation evidencing expenditures by the participating entities must break down the use of funds by project and source of financing (local counterpart or foreign exchange).
- 5.43 The associations of municipalities or FAMEPAR and the participating entities will retain all the supporting documents submitted to them and send reports to SEDU on expenditures and supporting documentation, classified by subloan, municipality, and contract and/or bid, distinguishing between counterpart and FDU funds (municipal and state) and the loan proceeds.
- 5.44 SEDU will consolidate the information received and send the results to the IDB for verification at the Bank's convenience.
- 5.45 Should SEDU detect irregularities in the procedures followed, it will inform the IDB. Based on the irregularities reported by SEDU or any it identifies directly, the IDB may adopt the measures identified in paragraph 5.27 above.

- 5.46 SEDU, the IDB, and the Program's external auditors may inspect the expenditure records in the files of the municipalities, associations of municipalities, and FAMEPAR.

N. Monitoring of the works

- 5.47 The participating entities will be responsible for monitoring project contract execution. The activity may be carried out directly by the participating entity if it has the technical capacity, or it may hire independent consultants or a specialized company to perform the task. The cost of the latter services may be charged to the financing.

O. Cost recovery mechanisms

- 5.48 The rates, fees, betterment levies, and taxes should, as a general rule, cover operating, administration, maintenance, and investment costs. In cases in which the project beneficiaries cannot be clearly identified or when a breakdown is not justified, costs will be recovered from the general revenues of the municipalities. In such cases, it must be demonstrated that the project will not create a deficit in the current account of the participating entity.
- 5.49 However, when the socioeconomic circumstances of the population so require, the general rule may be relaxed so that, without causing deficits in their current accounts, the municipalities can subsidize part of the investment costs in accordance with the ability to pay of the beneficiaries. The amounts of such subsidies must be definite, specific, and distributed in accordance with the methodology agreed upon by the state government and the Bank.

P. Restrictions on the use of funds

- 5.50 Program funds may not be used to finance: (a) debt refinancing; (b) procurement of used goods; (c) administrative costs; or (d) working capital.
- 5.51 Payment of taxes and purchase of the buildings and land necessary for the projects will be financed with municipal or state counterpart funds.

Q. Program monitoring

- 5.52 The Paraná state government, through SEDU, will present annual reports on the Program to the IDB, in accordance with the program documents. The reports will be submitted within 90 days after the end of each year during the program execution period and for two years after disbursement in full.

- 5.53 Each year during the Program, the IDB and the State of Paraná will conduct a joint evaluation in order to review compliance with program objectives from the fiscal and institutional standpoints, and in relation to the projects financed. The semiannual progress reports prepared by the participating entities will be used for that purpose.
- 5.54 The aforesaid reports must include the following: (i) efficiency in program execution in terms of the number of projects approved and executed by sector, the amounts allocated, spending, and the number of low-income beneficiaries served; (ii) the number and outcome of institutional development activities involving FDU/FAMEPAR and the municipalities; (iii) the number and outcome of the institutional strengthening activities for IAP, SESA, and the associations of municipalities; (iv) the impact of the Program on the fiscal, administrative, and operating situation of the municipalities; (v) the impact of the Program on the coverage and quality, operation, and maintenance of services; and (vi) cost recovery. The indicators and targets set forth in the Logical Framework for the Program will be used for this purpose.

## **VI. GENERAL PROVISIONS**

### **A. Administration of program funds**

- 6.1 In accordance with the loan contract between the Government of the State of Paraná and the IDB, and for purposes of the financial execution of the Program, an appendix will be added to the existing agreement between SEDU and SEFA/BANESTADO, in order to name BANESTADO as the financial agent of the FDU and to include the Program in its purview. A special account will be opened to deposit the funds of the program in order to permit independent, detailed accounting control.

### **B. Modifications and entry into effect**

- 6.2 SEDU and the participating agencies may suggest modifications to these regulations to adapt them to new circumstances or conditions that arise during program execution, in order to ensure that the objectives will be attained. Such modifications will enter into effect when the authorized representatives of IDB and SEDU express their agreement.

### **C. Interpretation and settlement of disputes**

- 6.3 In the event of discrepancies or contradiction between these regulations and the loan contract, the latter will prevail.

**PROGRAM TO SUPPORT URBAN DEVELOPMENT IN THE STATE OF PARANÁ  
(BR-0212)  
LOGICAL FRAMEWORK**

PROGRAM	INSTITUTIONAL DEVELOPMENT AND STRENGTHENING SUBPROGRAM	INVESTMENT SUBPROGRAM 1/		
		COMPONENT FOR SUPPORT FOR MICROENTREPRENEURS AND SMALL PRODUCERS	TARGETED SOCIAL SERVICES COMPONENT	BASIC URBAN S COMPONE
the quality of life of the urban population				
al development and ning subprogram	<b>PURPOSE</b> To improve: (a) the managerial, technical and administrative capacity of the participating municipalities so that they can make investments in the social sectors and productive activities; (b) the capacity of state agencies and associations of municipalities to manage the program; and (c) FAMEPAR's capacity to strengthen itself as a research and planning agency geared towards municipal management	<b>PURPOSE</b> To help microentrepreneurs and small producers establish new enterprises	<b>PURPOSE</b> To improve social services that support low-income families	<b>PURPOSE</b> To improve sanitation, transportation, and well urban population, espe income areas on the ou cities
ent subprogram				
ponent for support for entrepreneurs and small ucers				
ted social services				
onent				
s services component				

on the basis of the representative sample of projects

PROGRAM	INSTITUTIONAL DEVELOPMENT AND STRENGTHENING SUBPROGRAM	INVESTMENT SUBPROGRAM		
		COMPONENT FOR SUPPORT FOR MICROENTREPRENEURS AND SMALL PRODUCERS	TARGETED SOCIAL SERVICES COMPONENT	BASIC URBAN SE COMPONENT
	<b>OUTPUTS</b>  1. Institutional capacity of FAMEPAR improved 2. Institutional capacity of associations improved  <b>INSTITUTIONAL STRENGTHENING</b> 3. Strategies devised for economic and social development of the municipalities 4. Municipal land management systems implemented 5. Municipal tax systems improved 6. Efficiency of municipal service delivery improved 7. Management, technical, and administrative information systems improved 8. Studies on specific projects prepared 9. Municipal employees trained 10. Digital mapping completed 11. Environmental management system strengthened	<b>OUTPUTS</b>  1. Construction of industrial facilities 2. Construction of commercial facilities 3. Construction of commercial pavilions 4. Installation of grain dryers 5. Construction and outfitting of lime terminal 6. Construction of fish processing plant 7. Construction and outfitting of slaughterhouses 8. Construction and outfitting of refrigerated storage facilities	<b>OUTPUTS</b>  1. Day nurseries constructed and outfitted 2. Centers for support for migratory workers constructed and outfitted 3. Family and senior citizen centers constructed and outfitted 4. Child and youth centers constructed and outfitted 5. Public squares constructed and remodeled 6. Cultural centers constructed and remodeled 7. Mini-gymnasiums constructed 8. Sports fields constructed 9. Health centers constructed and outfitted 10. Health posts constructed and outfitted 11. Regional hospitals expanded and remodeled 12. Blood centers constructed and outfitted 13. Laboratories constructed and outfitted 14. Community pharmacies constructed and outfitted	<b>OUTPUTS</b>  1. Public street lighting 2. Household connected electric power 3. Street paving 4. Bridges and overpasses 5. Intercity transportation 6. Urban transportation 7. Rehabilitation of degraded areas 8. Control of urban erosion/drainage 9. Water supply micro 10. Water supply systems 11. Sewage collection and treatment 12. Alternative sewage and treatment systems 13. Solid waste collection, transportation, and

# **LOGICAL FRAMEWORK** **INSTITUTIONAL DEVELOPMENT AND STRENGTHENING SUBPROGRAM**

OBJECTIVE	SITUATION UPON COMPLETION OF SUBPROGRAM
<b>PURPOSE</b>	
<p>To improve: (a) the managerial and technical capacity of the participating municipalities so that they can make investments in the social sectors and productive activities; (b) the capacity of state agencies and associations of municipalities to manage the program; and (c) FAMEPAR's capacity to strengthen itself as technical assistance and institutional development agency and a research and planning agency for municipal management</p>	
<b>OUTPUTS</b>	
<p><b>DEVELOPMENT</b></p> <ol style="list-style-type: none"> <li>1. Institutional capacity of FDU/FAMEPAR improved</li> <li>2. Institutional capacity of the associations improved</li> </ol> <p><b>INSTITUTIONAL STRENGTHENING</b></p> <ol style="list-style-type: none"> <li>3. Strategy for economic and social development of the municipalities improved</li> <li>4. Municipal land use system implemented</li> <li>5. Municipal tax systems improved</li> <li>6. Efficiency of municipal service delivery improved</li> </ol>	<ol style="list-style-type: none"> <li>1. Training provided for FDU/FAMEPAR for its new strategic activities, in particular:               <ol style="list-style-type: none"> <li>a. planning and implementing the structural changes necessary, including the establishment of new offices and provision of equipment for existing offices to achieve the general objectives</li> <li>b. meeting the program requirements</li> <li>c. providing technical assistance to the municipalities</li> <li>d. developing closer ties to like institutions</li> <li>e. developing technologies or conducting research in various areas of municipal development</li> </ol> </li> <li>2. Improve associations of municipalities so that they can better perform their new functions under the program, such as:               <ol style="list-style-type: none"> <li>a. developing their administrative ties with the institutions involved in the program</li> <li>b. reviewing and approving designs</li> <li>c. supervising and inspecting work</li> </ol> </li> <li>3. Assistance provided to approximately 65 municipalities for them to devise their economic and social development strategy and for 29 municipalities to adjust their organizational structure and functions to meet their economic and social development objectives</li> <li>4. Assistance provided to approximately 20 municipalities for them to implement a land management system that will enable them, among other things, to: (a) regulate land use in accordance with environmental concerns; (b) prioritize public investment; (c) monitor certain quality of life indicators; and (d) adjust the administrative structure and monitor certain quality of life indicators for 120 municipalities participating in city planning</li> <li>5. Approximately 85 municipalities receive methodologies, equipment, and staff training to improve their municipal tax collection system</li> <li>6. Approximately 107 municipalities receive methodologies, equipment, and staff training to improve the efficiency of municipal service delivery in terms of cost and quality</li> </ol>

OBJECTIVE	SITUATION UPON COMPLETION OF SUBPROGRAM
<p>7. Municipal management, technical, and administrative systems improved</p> <p>8. Studies on specific projects completed</p> <p>9. Municipal employee training</p> <p>10. Digital mapping</p> <p>11. Strengthening of environmental management system</p>	<p>7. Approximately 180 municipalities receive methodologies, equipment, and staff training to improve the information systems for planning, organization, management, and control they use for decision-making and management of the human, financial, and physical resources of their agencies</p> <p>8. Assistance provided to approximately 111 municipalities in studies on specific projects, such as management of social security funds, outsourcing, or transferring public services to municipal control, to help the municipalities in decision-making and other matters</p> <p>9. Training provided for approximately 8,000 employees of participating municipalities, through 480 training events in management and operations, on such topics as goal-setting, motivating staff, productivity, planning, and management techniques in general</p> <p>10. Digital maps at a scale of 1:2,000 provided to approximately 29 municipalities for use in city planning and preparation of infrastructure projects</p> <p>11. Instituto Ambiental do Paraná, the environmental protection unit of SEDU, FAMEPAR, and the associations of municipalities strengthened to effectively manage environmental concerns under the program, through the provision of human resources, equipment, vehicles, and staff training</p>

**LOGICAL FRAMEWORK  
COMPONENT FOR SUPPORT FOR MICROENTREPRENEURS AND SMALL PRODUCERS**

OBJECTIVE	SITUATION UPON COMPLETION OF COMPONENT
<b>PURPOSE</b>	
To enable microentrepreneurs and small producers to establish new enterprises	
<b>OUTPUTS</b>	
<ol style="list-style-type: none"> <li>1. Industrial facilities/construction</li> <li>2. Commercial facilities/construction</li> <li>3. Commercial exhibit halls/construction and expansion</li> <li>4. Grain dryer/installation</li> <li>5. Lime terminal/construction</li> <li>6. Fish processing plant/construction and outfitting</li> <li>7. Slaughterhouses/construction and outfitting</li> <li>8. Refrigerated storage facilities/construction and outfitting</li> </ol>	<ol style="list-style-type: none"> <li>1. Facilities of approximately 500 square meters in area constructed for the installation of at least 4 microindustrial modules supported by SEBRAE and administered by the municipality. The space, which will contain all the basic infrastructure, will be rented in 3-year cycles.</li> <li>2. Facilities with a covered area of approximately 100 square meters constructed, to house commercial activities for local products. The space will be made available unpartitioned, for arrangement by its occupants depending on its purpose, under the direction of SEBRAE and municipal administration. The floor space will be subdivided into 6 commercial modules, with one being earmarked for administrative offices and the others rented out.</li> <li>3. Covered or open areas will be constructed or expanded, for exhibition purposes, to be managed by the municipalities and rented to other institutions on a temporary basis.</li> <li>4. Prefabricated community facilities installed for grain processing, with the potential to process 300 kg/hour, to benefit 250 families, in municipalities in which such facilities are needed.</li> <li>5. Community lime terminal constructed and outfitted, with a covered area of 200 square meters on a plot of 500 square meters, for retail sale of lime to small producers, with an expected turnover of 1,000 tons of lime a month, benefiting 1,000 producers. The facility will have basic infrastructure and make provision for environmental concerns.</li> <li>6. A fish processing plant will be constructed and outfitted, with a standard area of approximately 400 square meters, an annex of 1,000 square meters for processing by-products into fish meal, and an estimated output of 3 tons a month. The infrastructure to be installed includes: landscaping, earthmoving, sewerage, water supply, transportation, and outfitting. The plant will be administered by the municipality and leased to local private concerns.</li> <li>7. A space will be constructed and outfitted to be used to slaughter animals, with a constructed area of 128 square meters, and a capacity of 5 head of cattle and 10 pigs per day.</li> <li>8. A space will be constructed and outfitted to be used to refrigerate agricultural products, with a constructed area of 250 square meters and a 4-ton storage capacity.</li> </ol>



### LOGICAL FRAMEWORK BASIC SERVICES COMPONENT

OBJECTIVE	SITUATION UPON COMPLETION OF COMPONENT
<b>PURPOSE</b>	
To improve the sanitary, environmental, transportation, and safety of the urban population, especially in low-income areas on the outskirts of cities	<ul style="list-style-type: none"> <li>- reduced incidence of waterborne and vector-carried diseases</li> <li>- lower infant mortality</li> <li>- improved water quality in local waterways</li> </ul>
<b>COMPONENTS</b>	
<ol style="list-style-type: none"> <li>1. Urban street lighting</li> <li>2. Household connections to electric power</li> <li>3. Street paving</li> <li>4. Bridges and overpasses</li> <li>5. Intercity transportation terminal</li> <li>6. Urban transportation terminal</li> <li>7. Rehabilitation of degraded areas</li> <li>8. Control of urban erosion/drainage</li> <li>9. Water supply microsystems</li> </ol>	<ol style="list-style-type: none"> <li>1. Public lighting on streets and in squares of the municipalities, by changing the standard street lamps or extending the electric grid to localities previously not served.</li> <li>2. Connection to electric power of dwellings located on the outskirts of cities and small towns inhabited by families earning less than three times the minimum monthly wage.</li> <li>3. In the outskirts of cities and in small towns, paving of main roads, secondary roads, and local roads, with an average width of 7 meters and including drainage. Surfacing may be asphalt, with irregular-sized stones, or six-sided paving stones. The structure of the roadbed will depend on the materials available in each region.</li> <li>4. Construction of bridges and overpasses at an average cost of R\$1.7 million on roads linking low-income neighborhoods, in order to improve the flow of traffic. The bridges will be built over streams to afford continuity to urban streets. The overpasses will be built at intersections of main urban streets. Both the bridges and overpasses will be constructed of reinforced concrete in dimensions consistent with the design of the streets, and will include storm drainage, earth-moving, and paving.</li> <li>5. Construction of intercity public transportation terminals for passenger boarding and disembarking, with an area of 300 square meters to 3,000 square meters. The terminals will consist of boarding and disembarking platforms, baggage check, lobby, snack bar, restrooms, and stores.</li> <li>6. Construction of public urban transportation terminals for passenger boarding and disembarking, with an area of 500 square meters to 2,000 square meters. Each terminal will consist of platforms, stores, restrooms, a police station, and a waiting area.</li> <li>7. Rehabilitation of areas degraded due to such factors as: uncontrolled settlement, solid waste, and discharge of sewage without proper treatment. The necessary infrastructure will be installed in both the area rehabilitated and any new areas settled by local inhabitants in cases in which resettlement is required. The number of areas to be rehabilitated will depend on demand from the municipalities and the resources available.</li> <li>8. Works will be carried out for drainage (including storm drains) and paving of streets located in areas of surface erosion. In cases of deep erosion, drainage and conveyance systems will be constructed.</li> <li>9. Implementation of simplified water supply systems for small communities.</li> </ol>

OBJECTIVE	SITUATION UPON COMPLETION OF COMPONENT
<p>10. Water supply systems</p> <p>11. Sewage collection/treatment</p> <p>12. Alternative sewage collection and treatment systems</p> <p>13. Solid waste collection, transportation, and disposal</p>	<p>10. Construction, expansion, and/or upgrading of water intake, conveyance, and storage, purification stations, and distribution systems in the outskirts of cities and in small towns.</p> <p>11. Construction or expansion of sewage collection and treatment systems. The collection systems will have terra cotta or PVC pipe with a diameter of at least 10 cm. In most cases, treatment will be through a fluid-bed anaerobic reactor.</p> <p>12. Institution of alternative low-cost systems for the collection and treatment of sanitary sewage, for use in the areas not covered in the SANEPAR expansion plan, and consisting basically of a simplified system with septic tanks and sewage treatment.</p> <p>13. Construction of sanitary landfills for disposal of solid waste from the municipalities, according to current technical standards with a view to preventing contamination of the environment.</p>

# **LOGICAL FRAMEWORK TARGETED SOCIAL SERVICES COMPONENT**

OBJECTIVE	SITUATION UPON COMPLETION OF COMPONENT
<b>PURPOSE</b>	
To improve the social services that support workers and their families	
<b>OUTPUTS</b>	
<ol style="list-style-type: none"> <li>1. Day nurseries constructed and outfitted</li> <li>2. Centers for support for migratory workers, constructed and outfitted</li> <li>3. Family centers constructed and outfitted</li> <li>4. Child and youth centers constructed and outfitted</li> <li>5. Public squares constructed or remodeled</li> <li>6. Cultural centers constructed or remodeled</li> <li>7. Mini-gymnasiums constructed</li> <li>8. Sports fields built</li> <li>9. Health centers constructed and outfitted</li> <li>10. Health posts</li> </ol>	<ol style="list-style-type: none"> <li>1. Approximately 80 day nurseries of three or more designs will be built, each varying from 300 square meters to 500 square meters in area and serving 90 to 135 children aged newborn to 6 years. Each will have separate areas for infants, toddlers, and preschoolers, indoor and outdoor play areas, kitchen, etc., and will be equipped with a refrigerator, industrial stove, cribs, and more.</li> <li>2. 30 modules with one or more designs will be built, approximately 300 square meters in area each, serving 200 rural migratory worker families, and containing a lunchroom, office, infirmary, restrooms, and multi-purpose room. Each will include space for a day care center with a nursery, preschool, and kindergarten for the workers' children, and all the necessary equipment in terms of furnishings, appliances, teaching materials, and a van-type vehicle.</li> <li>3. 30 centers will be constructed to serve children, young people, and senior citizens, offering social and educational leisure activities. Each will have an area of approximately 200 square meters, with an office, kitchen, and multi-purpose room and will serve 100 families in its area of influence.</li> <li>4. 50 centers of one or more types will be constructed. Each will have an area of 250 square meters to 300 square meters and serve 90 to 120 children and adolescents in the 7 to 17 age bracket. It will have a kitchen, dispensary, storage area, covered and open yard, restrooms, multi-purpose room, etc., and be equipped with a stove, refrigerator, table, sewing machine, etc.</li> <li>5. Recreational areas will be constructed or remodeled in municipalities, outfitted with street furniture, and landscaped.</li> <li>6. Multi-purpose cultural centers will be constructed or remodeled in communities, with a view to promoting community forums, leisure activities, social interaction, and cultural activities in general.</li> <li>7. Gymnasiums of approximately 100 square meters to 200 square meters will be built for sports activities, recreation, and as a space for music, theater, and dance festivals, and other cultural activities, mainly serving students from local schools.</li> <li>8. Multi-purpose sports fields will be constructed to serve the community students, and may be covered or open.</li> <li>9. Health centers will be constructed and outfitted to provide emergency care, internal medicine, pediatrics, and minor surgery. They will be designed to standard, up to 1,000 square meters in area, and will operate on a regional basis.</li> <li>10. Health posts will be constructed and outfitted and may or may not be to standard, depending on the type of care provided. Emphasis will be placed on preventive public health activities and monitoring. Available standard designs range from 130 square meters to 550 square meters in area.</li> </ol>

OBJECTIVE	SITUATION UPON COMPLETION OF COMPONENT
<p>11. Regional hospitals expanded, remodeled, and outfitted</p> <p>12. Blood centers constructed and outfitted</p> <p>13. Laboratories constructed and outfitted</p> <p>14. Community pharmacies constructed</p>	<p>11. Operation of existing regional hospitals located in main cities will be enhanced, by expanding their installed capacity and outfitting them to provide better care. They are general hospitals with beds earmarked for care of endemic infectious and contagious diseases, internal medicine, surgery, pediatrics, gynecology, and obstetrics. Expansion will be by some 500 square meters to 900 square meters.</p> <p>12. Units will be set up to make up a network of blood centers, blood units, and integrated State transfusion agencies. The purpose of extending coverage of the system is to increase production and distribution of blood products in order to ensure rapid access to and high quality of the blood available to the health care system.</p> <p>13. Units will be constructed that will make up an integrated network of state-run laboratories with a hierarchical structure. Regional laboratories will be set up to serve the municipalities in conducting more complex tests, thereby providing for more expeditious diagnostic support and more reliable care.</p> <p>14. Pharmacies will be constructed to provide products in the form of basic baskets of medication manufactured by the state pharmaceutical company CEME and sold at low cost to the needy.</p>

PROPOSED RESOLUTION

BRAZIL. LOAN /OC-BR. TO THE STATE OF PARANA  
Urban Development Support Program for the State of Parana

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 State of Parana 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 a program to provide support to the urban development of that State. Such financing will be for the amount of up to US\$ 249,000,000 (two hundred forty nine million dollars of the United States of America), or its equivalent in other currencies, except that of Brazil, which are part of the Ordinary Capital resources of the Bank, subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" set forth in the Executive Summary of the Loan Proposal.