

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**NITERÓI URBAN DEVELOPMENT AND SOCIAL INCLUSION  
PROGRAM**

**(BR-L1055)**

**LOAN PROPOSAL**

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## BASIC SOCIOECONOMIC DATA

Electronic links and references	
Basic socioeconomic data for Brazil	<a href="http://www.iadb.org/countries/home.cfm?language=spanish&amp;id_country=br">http://www.iadb.org/countries/home.cfm?language=spanish&amp;id_country=br</a>
Status of loans in execution	<a href="http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1212768">http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1212768</a>
Tentative lending program	<a href="http://opsgs1/ABSPRJ/tentativelending.ASP?S=BR&amp;L=EN">http://opsgs1/ABSPRJ/tentativelending.ASP?S=BR&amp;L=EN</a>
Annex II: Procurement Plan	<a href="http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1231775">http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1231775</a>
Information available in the CBRDOCS files	<a href="http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1212794">http://idbdocs/wsdocs/getDocument.aspx?DOCNUM=1212794</a>

## ABBREVIATIONS

ATC	Area Traffic Control
AWP	Annual work plan
BEP	Basic environmental plan
EIRR	Economic internal rate of return
EMP	Environmental management plan
EMUSA	Empresa Municipal de Moradia, Urbanização e Saneamento [Municipal Housing, Utilities, and Sanitation Company]
FEEMA	Fundação Estadual do Meio Ambiente [Rio De Janeiro State Environmental Protection Agency]
FRL	Fiscal Responsibility Law
HDI	Human Development Index
ICAS	Institutional Capacity Assessment System
IPTU	Urban property tax
IQVU	Urban quality of life index
ISSQN	Services tax
IT	Information technology
LCF	Local Currency Facility
MGP	Municipal Government Plan
NMG	Niterói Municipal Government
PMU	Program management unit
SEA	Strategic environmental assessment
SMMARH	Environment and Water Resources Department, Municipality of Niterói
TTMP	Transportation and Traffic Master Plan
WTP	Willingness to pay

**PROJECT SUMMARY**  
**NITERÓI URBAN DEVELOPMENT AND SOCIAL INCLUSION PROGRAM**  
**(BR-L1055)**

Financial terms and conditions <sup>1</sup>				
<b>Borrower:</b> Municipality of Niterói			Amortization period:	25 years
<b>Guarantor:</b> Federative Republic of Brazil			Grace period:	5 years
<b>Executing agency:</b> Municipality of Niterói			Disbursement period:	4 years
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	Interest rate:	Variable
IDB (Ordinary Capital)	26,470,000	60	Inspection and supervision fee:	0%
Local	17,660,000	40		
Other/Cofinancing			Credit fee:	0.25%
Total	44,130,000	100	Currency:	U.S. dollars
			Conversion to reais:	LCF
Project at a glance				
<p><b>Project objective:</b> The general objective is to enhance the quality of life of residents of the municipality of Niterói by executing urban renewal and social projects. The specific objectives include: (i) improve city services and environmental sanitation conditions in low-income neighborhoods and expand the infrastructure and social services network; (ii) improve mobility, connectivity, and safety conditions in the city's transportation system; (iii) support the revitalization of decaying areas in the city center; and (iv) strengthen the municipal government's institutional capacity.</p> <p><b>Special contractual clauses:</b> <u>Conditions precedent to the first disbursement:</u> (i) the appointment of the program management unit (PMU) coordinator and three professional staff members (paragraph 3.3); (ii) securing of environmental permits for the works comprising the sample (paragraph 3.18); (iii) entry into effect of the Operating Manual for the community development and social inclusion component (paragraph 3.22), and (iv) selection of a firm of independent auditors (paragraph 3.4). <u>Condition precedent to tendering program works in a specific area:</u> (i) adoption of the environmental management plan (paragraph 3.19). <u>Condition precedent to startup of program works in a specific area:</u> resettlement of affected families (paragraph 3.21).</p> <p><b>Other financial conditions:</b> Pursuant to document PR-3086-4 (PROCIDADES), in order to expand financing opportunities for the borrower, the conversions of disbursements and outstanding balances into local currency will be subject to two financial conditions in addition to the ones established in the Local Currency Facility (LCF): (i) greater flexibility in the repayment profiles for disbursements and outstanding balances in local currency; and (ii) price based on the Bank's actual financing costs should the Bank source its financing by issuing bonds (paragraph 2.12).</p> <p><b>Project consistent with country strategy:</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p><b>Project qualifies as:</b> SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/></p> <p><b>Procurement:</b> Goods and related services and consultant services will be procured following the Bank's procurement policies and procedures (paragraph 3.23).</p> <p><b>Verified by CESI on:</b> 8 September 2006.</p> <p><b>Exceptions to Bank policies:</b> A waiver is requested with respect to the application of the Bank's funding in local currency interruption clause, referred to in paragraph 3.15 of document GN-2365-2 on the LCF, as described in document PR-3086-4 (PROCIDADES).</p>				

<sup>1</sup> The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. (\*)

(\*) With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

## I. FRAME OF REFERENCE

### A. The municipality of Niterói and urban issues

- 1.1 The municipality of Niterói, located on the eastern shore of Guanabara Bay, is part of the Rio de Janeiro metropolitan area. Niterói and the adjoining municipalities of São Gonçalo and Maricá form a conurbation.<sup>1</sup> The municipality covers an area of 134.5 square kilometers and has a population of 460,000. Its economy is based on the commercial and services sector, which employs 70% of the working population. The city is a dynamic economic center with good services infrastructure. One of its features is that it employs a large number of residents from neighboring municipalities and serves as a bedroom community for a segment of the population that works in the city of Rio de Janeiro. An estimated 212,000 people travel to and from Rio de Janeiro every day, 54% of them by land, crossing the Rio-Niterói bridge, and the remaining 46% on the Rio-Niterói and Rio-Charitas ferries.
- 1.2 In general, the municipality's economic and social indicators exceed the national norm: average per capita monthly income is 809 Brazilian reais (R\$809); 96.45% of the adult population is literate; and life expectancy is 73.5 years. Basic sanitation indicators are the best in the metropolitan area, with 97% and 64.6% coverage for water and sewer services, respectively. With a human development index (HDI) of 0.886,<sup>2</sup> Niterói is the municipality with the highest HDI in the state of Rio de Janeiro and the third highest in the country.
- 1.3 These positive indicators notwithstanding, urban and population growth in recent decades has triggered a process of uneven development which has had a disparate impact on the different regions of the municipality and the quality of life of their residents. Keynotes in the process are accelerated urban growth in the Pendotiba and Oceânica boroughs and population declines in older established areas (particularly the city center). This process is also being driven by two related phenomena: the gentrification of some low-income neighborhoods where property values have increased due to investments in infrastructure, and the marginalization and concentration of low-income people in "substandard settlements" or *favelas*, resulting in a significant number of pockets of poverty within the city, affecting more than 20% of the population. It is estimated that in 2005, there were some 108 *favelas* with about 32,000 families, 70% of them living below the poverty line. These neighborhoods have sprung up overwhelmingly in the northern and bayside parts of the city, where 79% of the population lives in substandard settlements.
- 1.4 Living conditions in the *favelas* stand in stark contrast to the rest of the city. For example, in the Ititioca neighborhood in northern Niterói the population has an average household income of less than 3.2 minimum monthly wages.<sup>3</sup> The literacy rate is seven points below the municipal average. The water supply system reaches

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<sup>1</sup> (mapa 01 - conjunto de intervenções.jpg).

<sup>2</sup> Brazilian Institute of Geography and Statistics (IBGE) Census, 2000.

<sup>3</sup> Minimum wage (2000—last census)=R\$220/month.

just 22.4% of households, and only 17.7% of those dwellings have sewer connections. Land tenure is irregular and urban social infrastructure is nonexistent. These are not unusual conditions for these areas, although there are even more critical cases, such as the community of Morro do Céu, where conditions are unhealthy and the nearby sanitary landfill poses a singular risk.

- 1.5 The authorities have been working to address these conditions of deprivation, but efforts have been discrete and uncoordinated. Since the mid-1990s, various initiatives to address the most critical needs of some communities have made some progress in improving conditions. These efforts have recently been reinforced with the Municipality's participation in the IDB-backed "Inhabit Brazil" neighborhood improvement program, which has introduced a comprehensive approach to tackle the problems of low-income neighborhoods, but with a scope limited to a single community—Morro da Cocada. The program proposed here seeks to consolidate this comprehensive intervention approach and expand its coverage in accordance with the 2004 Strategic Municipal Plan for Substandard Settlements (PEMAS).
- 1.6 Changes in the socioeconomic structure of the city and its spatial distribution have also adversely affected the quality of the urban transportation system. In general, the public transit system is chaotic, with predatory practices among operators and poor intermodal connectivity. This results in an unnecessary increase in travel times and total fares paid by users, to the detriment mainly of low-income groups. The system lacks mechanisms to address the growing demand from Niterói residents, and particularly *favela* dwellers who rely on the public transportation system and would benefit from higher quality, efficient, affordable public transit.
- 1.7 The accelerated population growth of middle- to high-income groups in Pendotiba and Oceânica boroughs has aggravated the city's transit problems. The increasing number of vehicles crossing the city to reach the downtown metropolitan area of Rio de Janeiro over the Rio-Niterói bridge has worsened congestion and heightened the risk of accidents. Current daily traffic over that bridge is 135,000 vehicles and the bridge is operating at capacity during peak hours. These conditions, together with heavy regional traffic on highways BR-101 and RJ-104, create traffic jams and significantly overload several of the city's road corridors.
- 1.8 Niterói's Transportation and Traffic Master Plan (TTMP), developed in 2003, provides for the expansion and integration of all modes of transportation, giving priority to public bus transportation. The aim is to improve mobility and accessibility by creating dedicated busways and new road corridors, eliminating bottlenecks, and building transfer terminals, including facilities to encourage the use of water transportation. The TTMP would also complement these works through modernization of the traffic signal system using Area Traffic Control (ATC) technology and through adoption of electronic information and operations control systems. Also planned is the introduction of electronic fare collection on public transit, the gradual integration of rates for municipal services, and the supply of differentiated services.

- 1.9 The downtown area has also been affected by the city's uneven development. The depopulation of the city center, which started in the 1970s, has accelerated in the last decade, adversely affecting the downtown economy and contributing to the physical deterioration of public spaces and urban infrastructure. The decrease in the local population from 21,632 in 1991 to 17,852 in 2005 (a 17% reduction), has resulted in a high number of vacant dwellings (2,875 in 2005) and a significant decrease in formal business (236 businesses closed as of 2002). This shrinking of the population has also contributed to the deterioration of public spaces, with an increase in vandalism and the proliferation of street vendors. It is estimated that there are currently more than 172 street traders in the area. To address this situation, the municipal government is finalizing a master plan, which the program described here will support in the implementation of its strategic activities.
- 1.10 Institutionally, the Municipality of Niterói is one of the best structured and best run in the country. Its status as capital of the state of Rio de Janeiro until 1974 assured it a good infrastructure endowment. The Municipality has a long tradition of urban planning (its first urban plan was developed in 1940). The current urban master plan approved in 1992 was revised in 2004 to bring it in line with the *Estatuto das Cidades* ([IDBDocs Link](#)). To administer the plan, the Municipality has an Executive and Planning Secretariat, the *Procuraduría General*, the *Contraloría General*, 16 sectoral departments, three municipal companies, and Aguas de Niterói—a private concessionaire for the water and sewerage system.
- 1.11 Although these entities have sound technical and administrative capacity, their planning capacity generally needs to be improved, their information systems upgraded, and their staff trained. This was confirmed in the institutional analysis performed by the Bank, which called for improvement and upgrading of financial and accounting systems and building planning and internal control capacity, all of which would be addressed by this program.

## **B. The Municipality's strategy**

- 1.12 The current Niterói city administration has established the central tenet that urban quality of life means universal access to decent housing, public goods and services, environmental protection, and revitalization of social and civic spaces. The current Municipal Government Plan (MGP) is grounded in systematic and comprehensive planning and effective participation by civil society, with a time horizon to the year 2020.
- 1.13 The MGP proposes 13 strategic and framework programs aimed at improving conditions in the following areas: sanitation, drainage, housing, social inclusion, education, health, traffic and transportation, downtown revitalization, tourism, industry, environment, security, and institutional strengthening. In order to implement that plan, the proposal is for the federal, state, and municipal governments to join forces with the private sector and to secure financing from international organizations. With respect to external financing, the MGP proposes an eight-year urban intervention strategy and a total investment of US\$104 million.



The proposed strategy, which will run beyond the current government's term, consists of two phases (four years each).

- 1.14 Implementation of the first phase of the MGP would address the housing, social, and environmental problems affecting the city's *favelas*. To that end, the MGP capitalizes on the municipality's experience with the IDB-funded Inhabit Brazil program, which took a comprehensive urban renewal approach as municipal policy. The strategic actions in phase one are the main investments that will be supported through this operation.
- 1.15 In the area of urban transportation—and based on the TTMP—the Municipality has made the public transportation system a priority. It intends to improve public transit service for low-income parts of the city, meet the demand for corridors between downtown and the city's fastest-growing boroughs (Oceânica and Pendotiba), and strengthen the Rio-Niterói ferry terminal that runs out of the Charitas neighborhood. This future intermodal transfer terminal will relieve the current saturation of the Rio-Niterói bridge, simultaneously reducing the number of private vehicles crossing the downtown core.
- 1.16 Another municipal priority is to continue implementing the municipal program to revitalize decaying inner-city areas. This program promotes actions to preserve and restore properties, as well as the tax exemptions that the Municipality already is granting. In addition, projects currently in progress that have been financed by public-private partnerships include the convention center, the Cultural da Cantareira shopping center, and above all the "Niemeyer Walk."<sup>4</sup> The program proposed here supports and complements the integrated actions that the Municipality has been carrying out in these key sectors to remedy the most serious problems affecting the city's operation and residents' quality of life.

### **C. The Bank's strategy and lessons learned in the sector**

- 1.17 The proposed program fulfills the conditions, requirements, eligibility criteria, and investment-sector requirements stipulated in the PROCIDADES lending facility.<sup>5</sup> It builds on the Bank's experience in multisector urban development interventions such as those carried out through the Urban Paraná program, stages I (917/OC-BR) and II (1405/OC-BR). It particularly capitalizes on the Bank's experience in comprehensive neighborhood improvement and urban renewal ventures, internalizing the best practices emerging from projects such as Favela Bairro (1241/OC-BR), Inhabit Brazil (1126/OC-BR), and Restoration of Quito's Historic Downtown (822/OC-EC). The main lesson was incorporated into the very design of the project, which comprehensively targets urban investments to unregulated

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<sup>4</sup> Based on the appraisal of buildings and structures designed by architect Oscar Niemeyer (the most important being the Contemporary Art Museum, JK Plaza, Roberto Silveira Memorial, Petrobrás Cinema Museum, Teatro Popular, new water transportation terminal, Catholic cathedral, and aquarium).

<sup>5</sup> PROCIDADES (BR-L1043) is a credit facility to finance municipal government management development and works in Brazil, currently being processed for Bank approval.

settlements and social welfare activities. Other lessons learned include: (i) the importance of participation by the community, to ensure the sustainability of urban improvements; (ii) the street vendors affected by interventions in central areas need to be actively involved, to find solutions by consensus that are economically viable, so that the removal process is perceived as permanent by private investors; (iii) the affected parties need to take part in preparing the resettlement plan and in financing their participation as an integral part of the program; and (iv) priority needs to be given to the issue of land ownership, regularization of which gives beneficiaries the necessary security to make investments.

- 1.18 Implementation of the program will enable progress to be made in at least four of the Bank's priority areas for its work with Brazil, namely: (i) increase infrastructure investment required to improve the competitiveness of urban agglomerations; (ii) invest in social services for the neediest segments of the population; (iii) implement urban sanitation projects; and (iv) strengthen municipal government sector management.

**D. Program strategy**

- 1.19 The program's strategy is to comprehensively address the urban development, social, and environmental problems associated with Niterói's uneven development in recent decades. The program proposes four groups of interventions. The first set is aimed at improving city services and housing conditions and broadening access to basic social services in *favelas*. The second focuses on improving the safety, mobility, and efficiency of the city's public transportation system. The third group of actions seeks to reverse the physical and economic deterioration of the downtown core. The fourth group is aimed at strengthening the municipal government's institutional capacity to deliver the services under its responsibility. The program will be a phased, coordinated operation to ensure consistency across interventions and prevent citywide impacts and inconvenience.

## **II. THE PROGRAM**

**A. Objective**

- 2.1 The general objective is to enhance the quality of life of residents of the municipality of Niterói by executing urban improvement and social projects. The specific objectives include: (i) improve city services and environmental sanitation conditions in low-income neighborhoods and expand the infrastructure and social services network; (ii) improve mobility, connectivity, and safety conditions in the city's transportation system; (iii) support the revitalization of decaying areas in the city center; and (iv) strengthen the municipal government's institutional capacity.

**B. Description**

- 2.2 The program calls for actions and works in the city of Niterói and would include the following components:

# **1. Community development and social inclusion–“citizen community” (US\$14.13 million)**

- 2.3 This component will finance investments required to improve environmental and housing conditions in Niterói *favelas* and broaden access to basic social services for these communities. To this end, it will support delivery of a package of services comprised of: (a) **basic infrastructure**, (b) **social services**, and (c) **land tenure regularization**. The component will target *favelas* that are home to low-income families (predominantly earning less than three minimum wages). Basic infrastructure services include water and sanitation, drainage, street paving, street lighting, and garbage collection. Social services include the construction, repair, and/or refurbishing of day care centers, community centers, basic education and healthcare facilities, and sports and recreational areas. Financing will also be provided for technical and legal assistance to regularize land tenure, including the legal paperwork for registering and titling plots, as well as for community development, job creation, and public health and environmental education activities.<sup>6</sup>
- 2.4 This component will finance improvements in three *favelas*, with an average population of 838 families each, benefiting a total population of 6,608 residents. Eligible *favelas* were selected on the basis of five criteria: (i) socioeconomic status of resident families; (ii) lack of infrastructure and services; (iii) feasibility of urban improvements and land tenure regularization; (iv) how established the community is (from an urban development standpoint and socially); and (v) location (priority areas according to government plans). Using these criteria, 18 eligible *favelas* were identified. To determine the order of priority of interventions, the following additional criteria were used: (i) the availability of current, detailed diagnostic data; and (ii) the level of mitigatable environmental risk. For this selection process, linear weight values were set for each criterion.<sup>7</sup> The three settlements in Table 2.1 had the highest scores.

**Table 2.1**  
**Selected communities**

<b>Settlement</b>	<b>Location (region)</b>	<b>Number of families</b>	<b>Number of residents</b>
Vila Ipiranga	Norte	1,723	4,394
Capim Melado	Pendotiba	416	820
Morro da Cocada	Norte	376	1,394
<b>Total</b>		<b>2,481</b>	<b>6,608</b>

<sup>6</sup> The complete list of works, goods, and services eligible for financing, as well as the phases of the land tenure regularization process, are in the Operating Manual for the community development and social inclusion component ([IDBDocs Link](#)).

<sup>7</sup> The detailed list of eligibility and prioritization criteria, as well as the list of selected and prioritized communities, are in the Operating Manual for the community development and social inclusion component ([IDBDocs Link](#)).

- 2.5 The maximum estimated investment per household will be US\$4,000 for communities of more than 500 families and US\$6,000 for communities with fewer than 500 families. Those amounts—which cover delivery of a minimum package of program infrastructure and services—were set based on a representative sample of eligible *favelas*, comprised of the communities of Vila Ipiranga and Capim Melado.<sup>8</sup> The designs of works for both projects are ready for execution and have had active community input in accordance with the community engagement methodology defined for the program.<sup>9</sup>

## **2. Urban transportation and mobility (US\$21.63 million)**

- 2.6 This component consists of an interrelated set of actions to improve the city's public transportation system, specifically aimed at: (i) reducing travel times in the various modes of transportation; (ii) lowering motor vehicle operating costs; (iii) reducing the number of victims of traffic accidents; (iv) improving access for people with physical disabilities; (v) improving urban connectivity and integration between the different sectors of the municipality; (vi) shortening travel times and improving coverage of the bus transit system; and (vii) reducing air and noise pollution.
- 2.7 The component has two subcomponents: (i) **improvement of the public transportation system** and (ii) **modernization of the traffic signal system**. In the first case, the program will finance the expansion and integration of the public bus system, including the construction of intermodal transfer terminals and creation of dedicated busways. The main intervention of the subcomponent is the creation of the Charitas-Piratininga corridor,<sup>10</sup> which will permit the operational integration of boat service to the city of Rio de Janeiro, both for bus riders and users who drive their own cars and park at the transfer terminal. Under the second subcomponent, the program will finance implementation of a modern Area Traffic Control (ATC)<sup>11</sup> traffic signal system, which will permit the automatic adjustment of signal duration and signal synchronization based on real-time demand. For the representative sample of this component, which takes up 70% of the total budget, detailed studies were done of demand, traffic, and economic feasibility of the Charitas-Piratininga corridor, including the traffic signal system. Environmental studies and detailed designs have been produced for this corridor. All the technical studies were done in

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<sup>8</sup> In addition to the typical needs exhibited by the eligible *favelas*, these communities are also representative in terms of population size (two types of neighborhoods: those with more than 500 families and those with fewer than 500). The cost ceilings reflect this.

<sup>9</sup> The community participation methodology is set out in the Operating Manual for the community development and social inclusion component ([IDBDocs Link](#)).

<sup>10</sup> Sample design for the Transportation and Mobility Component (Urban development of the Charitas-Ipiranga Corridor) ([IDBDocs Link](#)).

<sup>11</sup> Sample design for the Transportation and Mobility Component ([IDBDocs Link](#)).

accordance with Bank requirements, including public consultations and the resettlement policy.

### **3. Downtown revitalization (US\$2.94 million)**

- 2.8 The program will assist the Municipality in implementing its master plan<sup>12</sup> for revitalization of the city center. This component will finance strategic works that complement projects already under way, in order to move ahead in the urban renewal process in the area. Activities under this component could include improvement of public squares, gardens, and parks, through the supply of street furniture and street lighting, tree-planting, and actions to make these areas accessible to persons with disabilities in Praça Leoni Ramos, Jardim São João, and Parque das Águas (final designs are available for all these works, and the works are ready for tendering).

### **4. Institutional strengthening (US\$2.17 million)**

- 2.9 The technical-assistance activities to be funded by this component are intended to strengthen the municipal government's institutional capacity to execute the proposed program actions and ensure effective management after the program ends. The proposed activities are based on an analysis of the capacity of the municipal departments and agencies responsible for regulating city services and operation and maintenance of the program works. Two main items will be financed: (i) **staff training and equipment procurement**; and (ii) **studies and consulting support**. The first item will finance strengthening activities for:
- a. The Municipality's City Services, Transportation, and Traffic Department, mainly for software purchases and staff training to improve and update their traffic management skills, mainly management of the traffic signal and public transportation systems.
  - b. The Municipal Housing, Utilities, and Sanitation Company (EMUSA), focusing on administrative reorganization, review of its business rationale, implementation of integrated management systems, hardware and software purchases, and training of staff in works contracting and administration.
  - c. The Municipal Environment and Water Resources Department (SMMARH), primarily in the areas of rule-making and consolidation of the municipal environmental code and the municipal permitting system for polluting activities, as well as the supply of equipment for the information and internal control system, and training of staff in environmental compliance and permitting functions.
  - d. The Municipal Revenue Department, to support its administrative reorganization and help develop procedures manuals, modernize records systems, and develop and implement integrated finance, accounting, inventory

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<sup>12</sup> Sample design for the Downtown Revitalization Component ([IDBDocs Link](#)).

and asset control, treasury, and revenue collection systems. Two vehicles will be purchased for use in the property roll updating program and tax inspections, and IT equipment will be purchased. Training includes courses for municipal government employees in running the new systems and in tax administration.

- e. The Municipal Comptroller's Office (CGM), to support its administrative organization (this being a new unit), complemented by internal control courses, including training in international auditing standards and risk analysis.
- 2.10 The following will be financed as part of the second item: (i) a study on legislative mechanisms and tools for redistributing the benefits of the city-center revitalization; and (ii) launching a data bank on downtown real estate.

### C. Cost and financing

- 2.11 The total cost of the proposed program is US\$44.13 million. The table below provides a breakdown by source of funds and cost category.

**Table 2.2**  
**Cost and financing (US\$000)**

Category	IDB/OC	Local	Total	%
<b>I. Engineering and administration</b>				
1.1 Program management unit and supervision of works	2,485	545	3,030	6.9
1.2 Audits	145	32	177	0.4
<b>II. Direct costs</b>				
2.1 Community development	0	14,132	14,132	32.0
2.2 Urban transportation and mobility	19,630	2,000	21,630	49.0
2.3 Downtown revitalization	2,335	600	2,935	6.7
2.4 Institutional strengthening	1,875	291	2,166	4.8
<b>III. Financing costs</b>				
3.1 Commitment fee		60	60	0.2
3.2 Inspection and supervision				
<b>Total</b>	<b>26,470</b>	<b>17,660</b>	<b>44,130</b>	<b>100</b>
Percentage	60	40	100	

### D. Financial conditions

- 2.12 The Municipality of Niterói has asked to use the Bank's Local Currency Facility (LCF). The Niterói Urban Development and Social Inclusion Program would be carried out using resources from the Single Currency Facility (U.S. dollars) of the Bank's Ordinary Capital and would be subject to the Operational Framework for Lending in Local Currency (document GN-2365-2). With a view to minimizing the exchange risk, the Municipality of Niterói would have the right, as established in the LCF, to convert disbursements, as well as outstanding amounts, to reais. In

order to expand financing opportunities for the borrower, such conversions to local currency will be subject to two financial conditions in addition to the ones established in the LCF: (i) greater flexibility in the repayment profiles; and (ii) price based on the Bank's actual financing costs should the Bank source its financing by issuing bonds. These conditions, together with the waiver with respect to the application of the Bank's funding in local currency interruption clause, are referred to and justified in Annex VIII of document PR-3086-4 and its Appendices. In accordance with the PROCIDADES mechanism, this will address the Municipality of Niterói's stated need to develop a public debt strategy increasingly with local currency components, using resources from the Single Currency Facility of the Bank's Ordinary Capital.

### **III. PROGRAM IMPLEMENTATION**

#### **A. Borrower, guarantor, and executing agency**

- 3.1 The borrower will be the Municipality of Niterói. The Federative Republic of Brazil will be the guarantor for the operation. The executing agency will be the Municipality of Niterói through a program management unit (PMU).

#### **B. Program execution and administration**

##### **1. Executing unit**

- 3.2 The program will be implemented over four years. The Niterói municipal government (NMG) has set up a PMU, attached directly to the Executive and Planning Secretariat, functioned as the project preparation unit and will be adapted to future implementation needs. It will work in coordination with the other NMG departments and agencies, including the Contraloría General; City Planning; City Services, Transportation, and Traffic; and the Municipal Housing, Utilities, and Sanitation Company (EMUSA).
- 3.3 The PMU will be comprised of a coordinator and three professionals from the NMG's staff, each in charge of a specific component, who will serve as liaisons between the PMU and each of the municipal departments, agencies, and companies participating in the various components. **Appointment of the coordinator and three professionals to staff the PMU is a condition precedent to the first disbursement.**
- 3.4 The PMU will also have a Special Tendering Committee appointed by the mayor; a support unit for environmental and social matters (comprised of current NMG staff), and a team of consultants for technical, legal, and administrative support, in order to ensure satisfactory program implementation. An independent audit firm will be hired to issue an opinion on the program from an accounting-financial, technical, social, and environmental standpoint. A consulting firm will be engaged to supervise the projects and activities financed with program resources. **Selection of the firm of independent auditors is a condition precedent to the first disbursement.**

- 3.5 The chief functions of the PMU will be the administration, planning, supervision, and overall monitoring of the program. Its specific responsibilities include: (i) coordinate the work of the NMG departments and agencies involved, in all program-related areas; (ii) prepare annual works plans, verifying eligibility; (iii) review and approve designs and studies; (iv) supervise works and approve progress payments; (v) prepare tender documents and administer the process through the contact award stage; (vi) draw up contracts and verify compliance; (vii) maintain systems for administration and payment of contracts and services; (viii) maintain financial and accounting systems and the corresponding internal control structure; (ix) maintain document and records systems; and (x) serve as the Bank's interlocutor in matters concerning the program, maintaining updated information to enable the Bank to perform routine and special reviews.
- 3.6 EMUSA will be responsible for contracting and managing all works (except sanitation works) and services for the institutional strengthening component.<sup>13</sup> The other municipal departments will oversee their respective components in accordance with their responsibility and authority.
- 3.7 The private water and sewer service concessionaire Águas de Niterói will execute the water and sanitation works. It will assume all costs for these works and for system operation and maintenance.

## **2. Agreements**

- 3.8 To execute the program, the NMG has signed agreements with the following entities: (i) EMUSA and Águas de Niterói, for the works and services related to maintenance and management of Parque das Águas; (ii) EMUSA, to execute the works and provide maintenance services included in the urban development of the benefiting communities, and works for the downtown revitalization component; (iii) Companhia de Limpeza Urbana de Niterói [Niterói Urban Sanitation Company] (CLIN), for garbage collection and street cleaning in the beneficiary communities; and (iv) the State of Rio de Janeiro Environmental Protection Agency (FEEMA), to empower the NMG's Environment Department to issue environmental permits.

## **3. Component implementation arrangements**

- 3.9 With the detailed and/or advanced basic designs now in place, works for the community development and social inclusion component in the communities of Vila Ipiranga and Capim Melado are ready to put out to tender. In the urban transportation and mobility component, detailed designs are available to tender the planned Charitas-Piratininga busway works. For the downtown revitalization component, advanced basic designs have been developed for Praça Leoni Ramos and Praça das Águas. The technical specifications for equipment and consultants'

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<sup>13</sup> EMUSA comes under NMG authority, with powers to contract, build, and maintain municipal infrastructure works. (Institutional capacity assessment (ICAS) of EMUSA [IDBDocs Link](#)).



terms of reference for goods and services procurement, as well as studies for the institutional strengthening component, are ready.

**a. Execution of the community development and social inclusion—  
"citizen community" component**

- 3.10 The implementation process, detailed in the Operating Manual for this component ("Project Preparation and Execution Cycle" section), will be applied in communities selected as eligible to participate in order of priority, as determined using the program criteria. The process includes the following stages:
- 3.11 **Preinvestment.** The PMU, through the component coordinator and technical team, will provide information on the program to each selected community and take the first community-organization actions to identify priorities. At the same time, the PMU will sign participation agreements with the community residents' association. Based on priorities identified by the community and the guidelines contained in the "Eligible Works, Goods, and Services" section of the component's Operating Manual, the PMU will draw up terms of reference for project designs and will start the procurement process.
- 3.12 **Project design.** This stage will have two phases: preliminary and detailed. In the preliminary design phase, the firm hired will produce a detailed, current socioeconomic diagnostic of the target community and a preliminary proposal of potential solutions (city service improvements and social development actions), with scaling and estimated cost information. The proposal will be submitted to the community for review. In the second phase, the firm will prepare the project's detailed design, which will include the community's observations (if so agreed) and must be approved by the operators of the services to be brought in. Social development activities and programming will be done in tandem with the project design work by a consulting firm or the PMU's technical staff. Execution will only proceed for projects that satisfactorily comply with the requirements contained in the "Project Appraisal and Approval Criteria" section of the Operating Manual.
- 3.13 **Project implementation.** The improvement projects will be put out to tender as a package, such that a single contractor will be responsible for all the works.<sup>14</sup> While the PMU is preparing the bid documents, EMUSA and the Special Tendering Committee will operate the contract tendering and award process. At the same time, prequalified entities will be invited to submit proposals to deliver the social development activities, which must begin at least 30 days prior to the start of execution of the works. Operation and maintenance of completed works will be transferred to the respective companies.
- 3.14 **Supervision of execution.** The improvement projects and social actions in this component will be overseen by the consulting firm engaged to supervise the program's projects and activities. Project inspection will be assigned to the technical team responsible for this component.

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<sup>14</sup> Except water and sanitation works, which will be executed by Águas de Niterói (paragraph 3.7).

- 3.15 **Operation and maintenance.** Operation and maintenance of the social services will be the responsibility of the corresponding NMG departments (i.e., day care centers and schools: Education Department; sports facilities: Department of Sports and Leisure). The designs for each component were prepared with the participation of the department in question. The prototype designs used had already been tested by those NMG units, which have supplied the required operation and maintenance budgets.

**b. Implementation of the downtown revitalization and transportation and mobility components**

- 3.16 The works for these components have already been pre-identified, detailed or advanced basic designs are available for the sample, and the respective bidding documents have been drafted. EMUSA will procure the works for both components, following Bank procedures. The City Services, Transportation, and Traffic Department will assist in the transportation and mobility component activities, and the Urban Development and Social Services Departments will assist in those under the downtown revitalization component. Those departments, coordinated by the PMU, will work with EMUSA to provide supervision and the necessary operational support for their respective components.

**c. Implementation of the institutional strengthening component**

- 3.17 EMUSA, through the Special Tendering Committee, will be responsible for goods and services procurement, hardware and software purchases, and consultant hiring. Direct supervision of consultant performance will be the responsibility of EMUSA and each of the departments participating in the institutional strengthening activities. The PMU, in conjunction with EMUSA and the participating NMG departments, will program the annual works plans and coordinate and supervise their implementation to see that the component's objectives are achieved on schedule. As part of the process of monitoring outcomes of strengthening actions for the NMG's Comptroller's Office, at the end of year 2 of the program the external audit firm to be hired will evaluate the results and, if necessary, recommend any steps for improving that Office's operation.

**4. Environmental and social considerations**

- 3.18 Under current legislation, the NMG's Environment and Water Resources Department (SMMARH) may issue environmental permits for works having an impact confined to the municipality. After consultations with the state environmental licensing agency, FEEMA, it was decided that a SMMARH-FEEMA agreement needed to be executed to legalize this delegation of authority. The environmental assessment study confirmed that no significant environmental impacts are expected. Only temporary and mitigatable impacts are anticipated during construction of the works. SMMARH will issue the environmental permits. **The securing of municipal environmental permits for the works comprising the sample will be a condition precedent to the first disbursement.**

- 3.19 For execution of the works in each intervention in the representative sample, an environmental impact assessment (EIA) and associated environmental management plan (EMP) are available, detailing mitigation measures and their cost. **The EMP will form part of the construction contract, and must be approved before the works are put out to tender.**

## **5. Community engagement and family resettlement**

- 3.20 The community's participation is assured throughout the diagnostic-design-implementation cycle of the works in each community involved in the community development and social inclusion component. Under the community participation methodology adopted by the program, community residents are to be involved in: (i) the preliminary NMG actions planned; (ii) analyses, studies, and diagnostics; (iii) scrutiny of integrated designs, including the resettlement plan; (iv) monitoring of works; and (v) participatory ex post evaluation. Local offices will be set up in each community with multidisciplinary teams to assist in the resettlement process, including communication with families. The chief community participation avenue is the Community Representatives Committee, which will be the liaison between the population directly affected and the Municipality. It also will coordinate community organization in the implementation and post-implementation phases, seeking to assert the collective interests of the communities and the benefits expected from the *favela* improvement works.
- 3.21 The Family Resettlement Plan provides the following three resettlement options to families affected by either the community development and social inclusion component or the transportation and mobility component: (i) **construction of new dwellings**, which will benefit families in the immediate vicinity of the targeted communities affected by the works under the different program components, placing them in new dwellings to ensure their welfare and provide access to existing social infrastructure and services; (ii) **monitored resettlement**, which consists of relocating affected families to existing dwellings in the local and regional property market through a grant to purchase a home; and (iii) **independent relocation**, which consists of providing cash compensation in exceptional cases when legal owners present evidence of their capacity to relocate independently. **Resettlement of families affected by the program will be a condition precedent to initiation of the civil works.**

## **6. Regulations and Operating Manual**

- 3.22 The program concept and design of the components are in line with the lending facility and are consistent with the general PROCIDADES Operating Regulations approved by the Bank ([IDBDocs Link](#)). An Operating Manual has been produced to ensure the efficiency and effectiveness of the community development and social inclusion component. **Entry into effect of the Operating Manual for the community development and social inclusion component, on the terms previously agreed by the Bank, will be a condition precedent to the first disbursement.**

## **C. Procurement**

- 3.23 Works, goods and related services and consulting services will be procured following the Bank's procurement policies and procedures. International competitive bidding will be required for works contracts with cost estimates of US\$10 million or more, and goods and related services contracts costing US\$500,000 or more. National competitive bidding will be used for contracts for works costing US\$500,000 or more but less than US\$10 million, and for contracts for goods costing US\$100,000 or more but less than US\$500,000. Shopping will be used for works contracts valued at less than US\$500,000 and goods contracts valued at less than US\$100,000. All consulting contracts worth US\$200,000 or more will be subject to international advertising. For consulting contracts below US\$500,000, the shortlist of consultants may comprise entirely national consultants. Works, goods, and services will be procured in accordance with the procurement plan presented in Annex II. Because the executing agency has no prior experience, supporting documentation for goods and services procurements will be subject to prior review.

## **D. Recognition of expenditures**

- 3.24 The NMG has requested that the Bank recognize as local counterpart contributions up to US\$8 million in expenditures incurred since 5 December 2005 to prepare consultancies to support and develop the projects included in the program. The procedures followed to select and hire the consultants were in accordance with local legislation.

## **E. Implementation period and disbursement timetable**

- 3.25 The table below presents the anticipated disbursement timetable for the four years the program will operate:

**Table 3.1**  
**Disbursement timetable (US\$000)**

<b>Source of financing</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Total</b>
IDB	8,000	10,000	6,000	2,470	26,470
Local	8,000	6,000	2,000	1,760	17,660
<b>Total</b>	<b>16,000</b>	<b>16,000</b>	<b>8,000</b>	<b>4,130</b>	<b>44,130</b>
Percentage	36.2	36.2	18.2	9.4	100%

## **F. Maintenance of works**

- 3.26 The NMG will maintain the program-funded urban renewal and downtown revitalization works through EMUSA, which has the financial resources and capacity for the purpose. The concessionaire Águas de Niterói will be responsible for maintenance of the water and sanitation works.
- 3.27 The borrower agrees to take the necessary measures to ensure that the works constructed under this program are maintained in accordance with generally

accepted technical standards, and to provide the Bank with annual maintenance reports during the first quarter of each year for up to three years running from the final disbursement of the loan. If the reports received or inspection visits by the Bank indicate that maintenance is not up to the required standard, the borrower must take the necessary measures to correct the deficiencies identified.

#### **G. Revolving fund and external audits**

- 3.28 To be able to advance resources for the Bank-financed activities, a revolving fund of up to 10% of the Bank's loan will be created, in accordance with the provisions for PROCIDADES operations. The executing agency is to present a semiannual report to the Bank on the revolving fund within 60 calendar days after the end of each six-month period.
- 3.29 During the life of the program the PMU will submit the program's annual audited financial statements. The external audits are to be conducted by a firm of independent auditors acceptable to the Bank, in accordance with Bank requirements (documents AF-100 and AF-300) and with terms of reference previously approved by the Bank (document AF-400). The program's annual audited financial statements will be presented within 120 days after the fiscal year-end. The program's closeout audit report must be presented within 120 days after the final disbursement.

#### **H. Monitoring execution**

- 3.30 The Bank's Country Office in Brazil will monitor the program's implementation. To that end, as part of its initial report the PMU will present the Bank with the final version of the annual work plan (AWP) for year 1 and a detailed program execution schedule. The PMU will also provide the Bank with semiannual progress reports showing achievement of the output indicators set out in the logical framework and the AWP.
- 3.31 Pursuant to the provisions of the PROCIDADES lending facility paper, flexibility will be built into supervision, based on the risk analysis exercise, which rated this program as moderate-low risk.<sup>15</sup> The technical support provider hired by the Bank will participate in program supervision; resources will be allocated in the administrative budget of the Country Office in Brazil for this purpose.

#### **I. Monitoring and management system**

- 3.32 The program described here will be a phased, coordinated operation. In order to ensure the effectiveness of the proposed actions it will implement a monitoring and evaluation system under the responsibility of the PMU. The indicators will relate to: (i) progress and achievement of targets; (ii) project monitoring; (iii) impact assessment of actions and projects; and (iv) efficiency and effectiveness of the program. These indicators are presented in the program's logical framework

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<sup>15</sup> Risk assessment summary ([IDBDocs Link](#)).

(Annex I).<sup>16</sup> Up to nine months after signature of the loan contract, the executing agency undertakes to have an information system up and running, with the characteristics and capacity agreed to with the Bank.

#### **J. Midterm and final review**

- 3.33 The PMU will prepare and send a midterm evaluation report to the Bank 90 days after 50% of the loan proceeds have been disbursed or 30 months into the program, whichever occurs first. The PMU will also prepare and send a final evaluation report to the Bank, which will serve as input for the project completion report (PCR), 90 days after 90% of the loan proceeds have been disbursed. Those reports will include: (i) financial execution outcomes by component; (ii) achievement of output and outcome targets, and progress in the expected impacts, referencing the program's logical framework indicators; (iii) extent of compliance with the environmental specifications and requirements for the works, as stipulated in the corresponding environmental management plan; (v) performance of operating and maintenance tasks for completed works; (vi) a summary of social and environmental impacts, including reports on the resettlement of families; (vii) level of compliance with contractual commitments; and (viii) a summary of the findings of all audits conducted over the life of the program. Once accepted by the Bank, the midterm and final evaluation reports will be made available to the public on the NMG website. The evaluations will be conducted by consulting firms to be hired by the PMU using proceeds of the loan.

### **IV. PROGRAM FEASIBILITY**

#### **A. Technical feasibility**

- 4.1 The works to be financed by this program are simple from an engineering standpoint, presenting no particular technical difficulties in their construction or operation. The technologies in question are widely used in the delivery of city services generally, urban transportation systems, storm drainage systems, and water and sewer systems. Appropriate technology and materials for the region will be used, which has economic and construction advantages. Housing to be provided to the resettled population complies with international best practices for low-income housing and represents cost-efficient solutions that meet Niterói municipal government (NMG) and IDB policy requirements.
- 4.2 The sample of program projects includes works totaling US\$23.2 million, which is equivalent to 53% of total program investments. The projects in the representative sample were prepared in accordance with generally accepted engineering standards and principles, and represent least-economic-cost alternatives that are technically viable and have been widely tested under similar conditions in the country. Budgets have the appropriate level of detail and backing. Projects comprising the first

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<sup>16</sup> The logical framework, developed with inputs from a workshop with the program's stakeholders, was reviewed by specialists and consultants from the participating agencies.

package of works, to be executed at the beginning of the program, have advanced basic designs and are ready to be put out to tender. Preliminary designs are ready for the remaining works planned for the program, and its budget contains resources to develop designs with the required level of detail for tendering and execution.

**B. Institutional feasibility**

- 4.3 The main aspects of the institutional, technical, administrative, and financial capacities of the NMG and EMUSA were analyzed, including those associated with operations and the generation of financial and accounting information, using the Institutional Capacity Assessment System (ICAS) methodology. The analysis found some weaknesses, primarily related to certain planning tools and accounting and financial systems being out of date. However, given the NMG's sound organizational structure for program execution and the proposed institutional strengthening activities, no major difficulties are envisioned for satisfactory execution of the operations.
- 4.4 To address the Municipality's lack of experience in executing programs financed by international organizations, the PMU will use program resources to hire specialized consulting services to support the program's various technical and operational aspects, including programming and monitoring of works and actions, accounting and finance, legal matters, preparation of the program's financial reports, reporting, and other monitoring reports. EMUSA, in turn, is not expected to encounter difficulties in performing the role assigned to it in the program.

**C. Socioeconomic viability**

- 4.5 A socioeconomic evaluation was done for each investment in the sample of projects for the program, comparing their economic costs and benefits in with-intervention and without-intervention scenarios. The benefits of the community development and social inclusion component were calculated based on property appreciation estimates. Transportation component benefits were calculated through surveys on the reduction of travel times and vehicle operating costs, and estimates of willingness to pay (WTP). The evaluated costs included incremental costs of investment, operation, and maintenance, contingencies, and social actions (resettlement), calculated at efficiency prices.
- 4.6 The benefits of the community development and social inclusion component were estimated based on expected property appreciation in the project area. The average current value of homes is R\$29,762 for Capim Melado and R\$19,853 for Vila Ipiranga. With the programmed urban improvements, the anticipated average appreciation is 97%, as was observed in similar projects like Favela Bairro in the city of Rio de Janeiro and Cuenca de Una in the city of Belém. The cost per family, of US\$4,000 for communities with more than 500 families and US\$6,000 for those with less than 500, was calculated taking into account the activities conducted in the two neighborhoods in the representative sample. The difference in investment amount between the communities is due to the fact that some social services

equipment has a greater impact on unit costs in the communities with fewer inhabitants.

**Table 4.1**  
**Economic Cost-Benefit Analysis**

Project	Economic net present value (R\$000)				EIRR	B/C
	Benefit	Investment	O&M	Net benefit		
Community development						
Capim Melado	9,024.6	6,368.4	577.7	2,078.6	27.7%	1.3
Vila Ipiranga	24,938.4	15,655.1	1,392.9	7,890.5	35.3%	1.5
Downtown revitalization						
Parque das Águas	2,397.1	1,477.2	503.1	416.7	15.77%	1.21

- 4.7 Analyses for the city-center revitalization component were project-specific. In the case of the *Parque das Águas*, benefits were based on user willingness to pay (WTP). Demand for the park was estimated at 145,924 visits in 2007, with an estimated WTP of R\$1.00 per person. For city-square revitalization, cost-efficiency indicators were used, with investment costs of R\$149/square meter. The analysis findings show the program to be economically viable, with economic internal rates of return (EIRR) above 12%.
- 4.8 A sensitivity analysis run for the projects simulated changes in the expected benefits and costs, varying the estimated parameter values—increase in home values, value of willingness to pay, and costs. According to the analysis findings, project EIRRs are robust: the operations can withstand cost increases of between 33% and 50% or a reduction in expected benefits of between 23% and 47%. For the case of Parque das Águas, the investment would have to be increased by 28% or the WTP value reduced by approximately 17% for a 12% EIRR.
- 4.9 For the transportation and mobility component, the Charitas-Piratininga corridor was evaluated from an economic standpoint, comparing economic costs and benefits of the without-intervention and with-intervention scenarios. Costs included investment in the corridor and its maintenance. Benefits included shortened travel times, fuel savings, and reductions in environmental pollution. Owing to information and methodology limitations, certain other benefits were not quantified in monetary terms, such as the reduction in costs associated with traffic accidents and the increase in worker productivity.
- 4.10 The benefit/cost (B/C) ratio and EIRR were calculated looking at annual benefit and cost streams over 20 years. Three scenarios were examined, applying rigid to flexible assumptions to estimate benefits. In the medium (most likely) scenario, benefits from the reduction in air pollution were not counted. Sensitivity analyses also were performed for the cases of a 20% increase in investment costs, a 20% decrease in the incremental benefits of changing from “without intervention” to “with intervention,” and the simultaneous combination of these two effects, but considering changes in the order of 10%. The results are summarized in Table 4.2.



**Table 4.2**  
**Economic profitability indicators for the urban transportation and mobility component**

	B/C	EIRR (%)	Sensitivity analysis EIRR (%)		
			+20% costs	-20% benef.	+10% costs and -10% benef.
Conservative scenario	2.75	43.8	36.2	34.8	35.6
Medium or likely scenario	4.03	62.9	53.2	51.2	52.3
Best-case scenario	4.10	64.2	54.2	52.2	53.2

- 4.11 The economic return of the component was determined to be 62.9%, with a benefit/cost ratio of 4.03. Both indicators reflect high social returns from the proposed investment. The sensitivity analyses indicate that in the worst-case scenario the EIRR of the component would be 34.8%, with a benefit/cost ratio of 2.75. The sensitivity analysis findings confirm the social profitability of implementing the Charitas-Piratininga priority busway.

#### **D. Beneficiary analysis**

- 4.12 This operation does not qualify as a poverty-targeted investment or a social equity enhancing project, because the percentage of low-income beneficiaries is 29.8%. Nonetheless, the program does have benefits for the low-income population, by improving city services, habitability, and access to social services in *favelas*. It will also help develop a more robust and efficient transportation system, benefiting the low-income population who will gain better access to the range of social services available and new employment opportunities thanks to greater and better mobility.

#### **E. Financial viability**

- 4.13 The NMG's finances were assessed considering three aspects: (i) budget execution in 2001-2005; (ii) requirements of the Fiscal Responsibility Law (FRL); and (iii) financial forecasts for 2006-2015.
- 4.14 The NMG's budget performance demonstrates effective financial management. Its 2005 current revenues of US\$226.8 million were up 2.6% from 2001. Over the same span its tax revenue intake fell 2%, though services tax proceeds increased by 27.4% and property tax revenues by 1.1%. In contrast, fees and charges for services dropped 31.2%. State transfers remained stable while federal government transfers increased 33.4%. During this period, tax receipts accounted for 38.9% of current revenues, state and federal government transfers for 18.2% and 21.4%, respectively. Current expenditure, which amounted to US\$211.2 million in 2005, rose 2.9% during the period. Personnel costs climbed 9% between 2001 and 2005. For

the period, they amount to US\$542.3 million, representing 54% of current expenditure. Current saving (6.9% in 2005) remained essentially unchanged, as did net saving (5.7% in 2005). Capital expenditures of US\$56.7 million during the five-year period were funded essentially with NMG own resources, since capital earnings came to only US\$6.2 million. Over the period examined here the NMG has been complying with the Fiscal Responsibility Law (FRL) indicators, as shown in the table below.

**Table 4.3**  
**FRL compliance indicators**

	<b>2004</b>	<b>2005</b>
Total personnel expenditure	42.78%	43.67%
Prudential ceiling 95%	54%	54%
Statutory ceiling	51.3%	51.3%
Credit operations	0.13	0.0
Limit set by Senate for domestic and external operations	16%	16%
Limit set by Senate for short-term revenue anticipation financing	7%	7%
Guarantees	0.0%	0.0%
Limit set by Senate	22%	22%
Net consolidated debt	8.67%	7.39%
Statutory limit <sup>17</sup>	120%	120%

- 4.15 An analysis of NMG balance sheets at 31 December 2005 indicates that the Municipality has liquid assets of US\$18.9 million, compared to financial liabilities of US\$12.5 million. Even considering that some of these resources are earmarked to the pension reserve, the liquidity position is comfortable. Accounts payable decreased from US\$30 million at 31 December 2001 to US\$5.2 million at the same date in 2005. Long-term liabilities of US\$58.1 million in December 2001 had fallen to US\$34.6 million at end-2005. Domestic credit operations decreased from US\$28.2 million to US\$12.5 million, and external operations from US\$19 million to US\$9.1 million.
- 4.16 In order to assess the NMG's capacity to contribute the counterpart resources and service the IDB loan, financial projections were run for the 2006-2015 time horizon in constant December 2004 U.S. dollars. The basic assumptions were as follows: (i) the country's GDP increases 3.5% in 2006 and 4% in 2007 and annually thereafter; (ii) service tax (ISSQN) revenues rise 5% in 2006, 2% in 2007, and 2.25% thereafter; (iii) urban property tax (IPTU) receipts increase 5.4% in 2006 as a result of ongoing actions to update the property roll, and 1% in 2007 and thereafter; (iv) transfers from the state and federal government mirror the GDP growth rate; (v) personnel costs increase 4% in 2006 and 2% thereafter as a result

<sup>17</sup> 120% of net current revenue.

- of promotions and increased headcount; (vi) expenditure for outsourced services increases 5% in 2006, 4% in 2007, and 2% thereafter; and (vii) expenditure on consumables rises 5% in 2006 and 2007, increasing thereafter by 4% each year. Accounts payable would be equivalent to 5% of the year's current expenditure.
- 4.17 According to the financial projections, the NMG would maintain an average current saving during the 2006-2011 period of 9.2% and net saving of 8.6%. During the 2012-2015 period the savings would be 11.5% and 10.9%, respectively. The budget outturn would remain positive over the entire projection period. In addition to the proposed program, the NMG would execute other works costing US\$182 million and financial outlays of US\$32.8 million during the 2006-2015 period. Under the basic forecast assumptions the NMG would be able to contribute the counterpart funds to the program and service the IDB loan. Likewise, the calculation of indicators suggests that the NMG would comply with FRL requirements.
- 4.18 Since EMUSA would receive resources from the NMG to cover the costs of executing and maintaining the works, that company's 2003-2005 financial condition was evaluated. Over that span EMUSA defrayed 49% of its expenses with its own revenues, resulting in a positive bottom line of US\$3.5 million.
- 4.19 According to its 2005 year-end balance sheet, EMUSA had short-term liabilities of US\$864,000 (US\$310,000 at the same date in 2003) and liquid assets of US\$927,000 (US\$337,000 at the same date in 2003). Its long-term debt at year-end 2005 was only US\$97,000 (US\$34,000 in December 2003), its equity US\$1,186,000 (US\$520,000 at 31 December 2003). In light of the above, EMUSA's finances are considered to be reasonably sound and its financial viability would be assured by the transfers it receives from the NMG.

#### **F. Environmental and social impacts**

- 4.20 As proposed by the project team, at a meeting on 24 March 2006 the Committee on Environment and Social Impact (CESI) recommended that a strategic environmental analysis be performed and that the project report and respective Environmental and Social Management Report (ESMR) be sent to the Committee. The reports were approved at the CESI's meeting on 8 September 2006.
- 4.21 The program's works are aimed at improving social, economic, and environmental conditions in the city of Niterói generally and of *favela* dwellers in particular. Consequently, the social and environmental impacts will be positive, including improvements in: (i) sanitation conditions, public health, and access to services, particularly for residents of the prioritized substandard settlements; (ii) urban environmental quality and recreational areas in the city center, and (iii) the quality and safety of public transportation. Another positive impact will be the decline in number of families who are living in unsafe areas within the targeted neighborhoods.
- 4.22 The planned construction work will produce temporary, moderate negative impacts that are common to this type of urban renewal and urban mobility interventions.

The main impacts will include: (i) disruptions to traffic and pedestrian access where water and sewer systems are installed; (ii) noise and dust produced as a result of engineering works; and (iii) expropriation and relocation of families and small businesses due to the widening of Francisco da Cruz Nunes Avenue (Charitas-Piratininga public transit corridor). A Construction Work Environmental Management Plan, which forms part of the basic environmental plan (BEP), was prepared to mitigate the impacts of construction. Environmental supervision actions as part of supervision of the planned program works, and environmental clauses in construction contracts to be signed by EMUSA with construction companies, will be mandatory. The main adverse social impact of the program has to do with displacement of low-income families and subsistence merchants as a result of the widening of Francisco da Cruz Nunes Avenue. The program includes compensation and resettlement options that are consistent with IDB policy OP-710.

- 4.23 *Consultation and participation process:* The project preparation process has been comprehensive, participatory, and interactive. Priority has been given to the consultation process with the affected community, establishing participation mechanisms for the affected resident population, beginning with the diagnostic and option-selection phase, in the framework of the environmental impact assessment and formulation of the resettlement plan. This process is described in the program's Operating Manual.
- 4.24 The program's environmental assessment study was made available to the public on 20 April 2006 and was posted in the Bank's Public Information Center on 30 August 2006. The specific environmental studies were submitted to the Niterói municipal environmental protection authority beginning in May 2006. A public hearing was held on 4 May 2006 to discuss the program's environmental impact assessment.

#### **G. Anticipated outcomes and benefits**

- 4.25 Execution of the proposed program will produce social, urban, and environmental benefits in the city of Niterói. The beneficiaries will be the residents of Niterói in general, and residents of *favelas* and of the city's downtown core targeted by the program in particular. The specific outcomes include: (i) improvement in the environmental and housing conditions of 2,515 low-income families that currently reside in three *favelas*, also improving their access to basic social services and regularizing their land tenure; (ii) improvements in mobility and safety conditions in the city's public transportation system, expanding the coverage of the bus system and making better use of the road infrastructure (this will reduce transportation costs, travel times, and the risk of accidents and will enhance accessibility for pedestrians, cyclists, and people with physical disabilities, with a particular impact on the mobility of the low-income population); and (iii) public investment strategically directed to the downtown area to encourage private investment in housing and help revive local business. In the medium term this will boost the Municipality's tax revenues.

## **V. SPECIAL CONSIDERATIONS AND RISKS**

### **A. Special considerations**

- 5.1 **Works and services procurement timeframes.** State legislation prescribes ex ante approval by the state's Official Auditing Office of tenders in excess of R\$1.5 million. Prior experience, including projects financed by the Bank, has shown that the review process takes more than six months. That approval time will significantly affect the schedule for the works. Steps are being taken with the Auditing Office to find a way to expedite this process.

### **B. Main risks**

- 5.2 The program presents a moderate implementation risk, owing to some institutional development weaknesses, particularly the lack of integrated financial and accounting systems. To mitigate these risks, the program has allocated resources for institutional strengthening of the NMG, aimed primarily at improving management systems, upgrading equipment, and training staff.
- 5.3 Another potential risk is related to a potential change in administration as a result of the November 2008 municipal elections. This risk is mitigated by the broadbased participation of civil society in the city's administration. Likewise, the interest of residents of the targeted neighborhoods and other users is being kept up thanks to widespread publicity about the program and the participatory design of the neighborhood interventions.

**NITERÓI URBAN DEVELOPMENT AND SOCIAL INCLUSION PROGRAM**  
**BR-L1055**  
**LOGICAL FRAMEWORK**

Objectives	Indicators	Baseline	Means of verification	Assumptions
<b>GOAL</b>  Help enhance the quality of life of residents of the municipality of Niterói	<b>IMPACTS</b>  Upon program completion: <ul style="list-style-type: none"> <li>5% increase in the four indicators (education, income, environment, and housing) comprising the municipality's urban quality of life index (IQVU)</li> </ul>	IQVU (data from 2007 are being processed)	<ul style="list-style-type: none"> <li>Final program evaluation</li> </ul>	
<b>PURPOSE</b>  Improve urban infrastructure and environmental sanitation conditions in <i>favelas</i> and expand residents' access to basic social services           Improve mobility, connectivity, and safety conditions in the city's transportation system  Support the revitalization of decaying areas in the city center	<b>OUTCOMES</b>  Upon program completion: <ul style="list-style-type: none"> <li>100% of residents of <i>favelas</i> targeted by the program have access to at least three basic services (two infrastructure and one social) by the end of the program</li> <li>50% increase in market value of houses in targeted <i>favelas</i> (pilot sample)</li> <li>3,900 beneficiary families regularize their land tenure status in <i>favelas</i> targeted</li> <li>47% increase in the average speed of buses on dedicated busways</li> <li>A minimum of 3 public areas revitalized</li> </ul>	2006; 20%           2006; R\$19,800 in Vila Ipiranga and R\$29,800 in Capim Melado           0 families; 2006           17 km/h: 2005           0: 2006	<ul style="list-style-type: none"> <li>Final program evaluation</li> <li>Program monitoring reports</li> <li>EMUSA reports and final program evaluation</li> <li>Niterói Transporte e Trânsito S/A report</li> <li>Final program evaluation report</li> </ul>	<ul style="list-style-type: none"> <li>The no-objection to tenders by the Official Auditing Office does not hold up the works schedule.</li> <li>Institutional coordination and participation across municipal agencies is maintained.</li> <li>The political will to continue the program is maintained after the 2008 municipal elections.</li> </ul>

Components	Output indicators	Baseline	Means of verification	Assumptions
<b>1. COMMUNITY DEVELOPMENT</b>				
<b>1.1 Basic infrastructure in targeted communities</b>	<p>Upon program completion:</p> <ul style="list-style-type: none"> <li>100% of residents of <i>favelas</i> targeted by the program have regular access to water service</li> <li>100% of residents of <i>favelas</i> targeted by the program have residential sewer connections</li> <li>100% of streets in <i>favelas</i> targeted by the program are paved</li> </ul>	<p>86%; 2006</p> <p>73%; 2006</p> <p>30%; 2006</p>	<ul style="list-style-type: none"> <li>Final program evaluation</li> <li>Program progress reports</li> <li>EMUSA reports</li> </ul>	<ul style="list-style-type: none"> <li>The targeted communities are interested in and support the program.</li> <li>Participation of the government institutions involved in the component is effective and timely.</li> </ul>
<b>1.2 Social services</b>	<p>Upon program completion:</p> <ul style="list-style-type: none"> <li>5 public day care centers and schools serving 150 children are operating in communities participating in the program</li> <li>5 community centers serving 150 people/month are operating in communities participating in the program</li> <li>5 sports and/or recreational facilities are operating in communities participating in the program</li> </ul>	<p>0 units; 2006</p> <p>0 units; 2006</p> <p>0 units; 2006</p>	<ul style="list-style-type: none"> <li>Final program evaluation report</li> <li>Final program evaluation report</li> <li>Final program evaluation report</li> </ul>	<ul style="list-style-type: none"> <li>Participation of the government institutions involved in the component is effective and timely.</li> </ul>
<b>2. URBAN TRANSPORTATION AND MOBILITY</b>				
<b>2.1 Improvement of the public transportation system</b>	<p>Upon program completion:</p> <ul style="list-style-type: none"> <li>5 terminals are built</li> <li>5 new corridors are implemented</li> <li>30 km of dedicated busways are completed</li> </ul>	<p>1 terminal; 2006</p> <p>0 corridors; 2006</p> <p>0 km of dedicated busways; 2006</p>	<ul style="list-style-type: none"> <li>Niterói Traffic Department reports</li> <li>Public services supply index (IDS-O)</li> <li>Household opinion survey</li> <li>Final program evaluation report</li> </ul>	

Components	Output indicators	Baseline	Means of verification	Assumptions
<b>2.2 Improvement of traffic signal system</b>	Upon program completion: <ul style="list-style-type: none"> <li>60 new traffic controllers and point-to-point links (ATC) are installed</li> <li>1 centralized traffic signal control center is installed</li> </ul>	105 controllers Base year: 2005  1 unit; 2006	<ul style="list-style-type: none"> <li>Final program evaluation report</li> <li>Annual report, City Planning Department</li> </ul>	
<b>3. DOWNTOWN REVITALIZATION</b>				
<b>3.1 Improvements in urban infrastructure</b>	Upon program completion: <ul style="list-style-type: none"> <li>3 public spaces are improved</li> </ul>	0 improved spaces; 2006	<ul style="list-style-type: none"> <li>Final program evaluation report</li> </ul>	
<b>4. INSTITUTIONAL STRENGTHENING</b>				
<b>4.1 Staff training and procurement of equipment</b>	Upon program completion: <ul style="list-style-type: none"> <li>4 specialized training programs run for NMG departmental staff and municipal companies involved in the program's implementation</li> </ul>	0 programs; 2006	<ul style="list-style-type: none"> <li>Final program evaluation report</li> </ul>	
<b>4.1.1 Administrative reorganization of the municipal Revenue Department</b>	<ul style="list-style-type: none"> <li>Integrated finance, accounting, inventory, treasury, and revenue collection system implemented</li> </ul>	0 systems; 2006	<ul style="list-style-type: none"> <li>Midterm program evaluation report</li> </ul>	
<b>4.1.2 Organization of the municipal Comptroller's Office</b>	<ul style="list-style-type: none"> <li>The Comptroller's Office has been established and is operating</li> </ul>	0; 2006	<ul style="list-style-type: none"> <li>Midterm program evaluation report</li> </ul>	
<b>4.2 Studies and consulting assignments</b>	<ul style="list-style-type: none"> <li>2 technical support studies and consulting assignments are completed</li> </ul>	0 studies; 2006	<ul style="list-style-type: none"> <li>Final program evaluation report</li> </ul>	