

JAPAN SPECIAL FUND (JSF) / JAPANESE TRUST FUND FOR CONSULTANCY SERVICES (JCF)

TECHNICAL COOPERATION PROFILE SUPPORT TO THE PREPARATION OF LOANS FOR THREE BRAZILIAN MUNICIPALITIES (BR-T1059)

I. BASIC PROJECT DATA

Beneficiary Country:	Brazil		
Project name:	Support to the preparation of the loans for the three Brazilian municipalities of São João do Meriti (BR-L1098), Santa Maria (BR-L1105), and São Luis (BR-L1117).		
Project team:	Leader: María Ariano (VPS/VPS); other members: Riccardo Rietti (ICF/FMM); Arcindo Santos (ICF/FMM); Patricia Bakaj (FMM/CBR); Eduardo Figueroa (RND/CBR); and Claudia Pévere (SCL/SPH), who assisted in the preparation of this document.		
Executing agency:	Country Office Brazil (CSC/CBR), with the support of Fiscal and Municipal Management Division (ICF/FMM), jointly with the three Brazilian municipalities of São João do Meriti, Santa Maria and São Luis.		
Beneficiaries:	The Brazilian municipalities of São J. Do Meriti, Santa Maria, and São Luis. The Bank’s Country Office in Brazil will be the primary executing agency of the CT and will manage the money received by the fund. In carrying out this task CSC/CBR will receive inputs from ICF/FMM and the Brazilian municipalities of São João do Meriti, Santa Maria and São Luis that are the final beneficiaries of the operation.		
Date of Request:	June 11, 2007		
Financing plan:	JCF	US\$	1,500,000
	JSF	US\$	500,000
	Local Countrepart	US\$	<u>500,000</u>
	Total:	US\$	2,500,000
Tentative dates:	Programming Committee	08/28/2007	
	Loan Committee	09/25/2007	
	Bank Approval	10/18/2007	
Execution Period:	18 months		
Disbursement period:	24 months		

II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 Over a short period of time Brazil has undergone an abrupt shift in demand for IDB resources, from the federal and state levels to the municipal levels. This can clearly be seen by comparing the makeup of the IDB portfolio with the 2006-2008 pipeline. Loans to the municipalities account for 19% of the value of operations under the 2006-2008 pipeline, compared with 12% of the value of the current portfolio, and as for the number of projects, 7% of the loans in execution are municipal loans, whereas 61% of the operations in the pipeline are municipal operations.

- 2.2 In order to address the new challenges posed by the opening up of the municipal market and to satisfy efficiently this growing demand, the IDB approved in October 2006 the lending facility PROCIDADES which has the objective of galvanizing the Bank's activities in Brazil at the municipal level and of streamlining procedures for project preparation and approval by decentralizing operations.
- 2.3 The facility will finance municipal loans aimed at improving the quality of life in cities, particularly for low-income populations, and at increasing their economic competitiveness. Initially, the facility will have US\$800 million in available funds, which are renewable with prior authorization by the Board of Executive Directors, when 75% of the funds have been committed for individual projects approved by the Bank.
- 2.4 To maximize its efforts and to reduce the operational costs, the Bank has chose the operational strategy of: (i) concentrating the lending activity in the Country Office; and (ii) supporting the tasks and the activities of the Country Office and of the municipalities in the preparation and supervision of the loans contracting consulting firms and agencies specialized in the design, evaluation and execution of projects.
- 2.5 As of April 2007, 28 Municipalities have requested loans to finance programs which are under preparation for a total amount of about US\$654 million (for a complete list of the Municipalities loans under preparation see the Annex I).

III. OBJECTIVES

- 3.1 The overall goal of the proposed Technical Cooperation (TC) is to support the three Brazilian municipalities of São João do Meriti, Santa Maria and São Luis in their attempt to improve their urban, socio-economic and environmental conditions.
- 3.2 The specific goal of the TC is to provide technical assistance and technical feasibility studies to the Bank and to the three above-mentioned Brazilian Municipalities for the preparation of their municipal development loans, specifically BR-L1098, BR-L1105, and BR-L1117. To this purpose, Japanese and international consultancy services will be hired.
- 3.3 Indeed, these three loans have been selected among the 28, for the TC support because: (i) the corresponding municipalities could benefit highly from the presence of Japanese and international consultants, learning and acquiring technical knowledge from the TC implementation; (ii) the programs and interventions to be implemented are strongly targeting low-income people; and (iii) the preparations of the loans are just at the beginning.
- 3.4 The selected consulting firms will have to prepare the technical feasibility analyses of the projects, which will be financed by the IDB loans. Specifically, they will analyze each investment project from the following four perspectives/components: technical/urban, financial/institutional, environmental, and socio-economic. These are outlined below:

- i. In the technical-urban component the consulting firms will define the functioning and the technical feasibility of basic infrastructure investments such as drinking water system, health system, sewerage system, roads, street lightening, slum upgrading and urban rehabilitation. In addition the consulting firms will identify indicators and mechanisms for the monitoring and evaluation of the municipal development loans.
 - ii. In the financial-institutional component, the consulting firm will indicate how to ensure financial sustainability of the projects. In addressing this issue the consulting firms will also suggest possible financial structures to be adopted to finance the investments with the aim of reducing public financial interventions over time, and attracting private financial resources from national and international investors as well.
 - iii. In the environmental component the consulting firms will define a basic environmental framework for each loan, providing environmental recommendations that will be taken into account in the definition and in the analysis of the investment projects, and by the executing agency during the projects' implementation.
 - iv. In the socio-economic component the consulting firms will have to deliver a complex work. The consulting firms will need to: (a) formulate policy interventions and define investments that can produce social and economic development in the targeted areas, and an improvement of the living conditions of low-income people (housing, support to vulnerable groups, fostering of economic activities, etc); and (b) provide alternative social and economic solutions, if needed, for the people that will be affected by the projects, such as slums upgrading, resettlement, housing, relocation and cash compensation.
- 3.5 A combination of the Japanese Trust Fund for Consulting Services (JCF) and of the Japan Special Fund (JSF) will finance the activities of the proposed TC. The activities of the first three components (technical/urban, financial/institutional and environmental) will be financed by the JCF, while the activities of the socio-economic component will be financed by the JSF.
- 3.6 This combination of funds will allow the Brazilian municipalities to take advantage of the high Japanese expertise in areas such infrastructure, environment, innovative financial and institutional structures, project implementation and social and economic development.

IV. COSTS AND FINANCING

- 4.1 The total cost of the operation is of US\$2,500,000 (for a detailed budget with its components see Annex II) . For the combined activities the IDB is expecting to hire Japanese consulting firms and local consulting firms and/or local individual consultants.
- 4.2 The JCF and JSF will finance 80% of the cost to contract consultancy services according to the JCF and JSF guidelines and regulations. Local counterpart represents 20% of the total cost of the TC, mainly in the provision of staff, local support, office space, transportation services, among others, to collaborate with the team of international and local consultants.

- 4.3 On average the JCF and JSF will finance for each loan around US\$670,000 of technical assistance, and the local counterpart will provide technical and logistic support for about US\$167,000 per loan.
- 4.4 Overheads are estimated as 63% of the honoraria costs, while the contingencies are around 2.3% of the whole TC amount.

V. EXECUTING AGENCY

- 5.1 Consistent with the procedures of the JCF and JSF, the Bank's Country Office in Brazil (CSC/CBR), supported by the Fiscal and Municipal Management Division (ICF/FMM) jointly with the Brazilian municipalities of São João do Meriti, Santa Maria and São Luis, will have the responsibility for the selection and hiring of the consulting firms.
- 5.2 The technical responsibility of this operation will fall on Miss María Ariano (VPS/VPS), Project Team Leader, and Eduardo Figueroa, PROCIDADES Coordinator in the Country Office in Brazil.

VI. EXECUTION PERIOD

- 6.1 The execution period of the proposed Technical Cooperation will last 18 calendar months.
- 6.2 On average, the consulting firms will work 6 months on each project. The project director will work for the 18 months full time on the projects, while the other consultants will be working on average for a period that goes between 12 and 15 months, as required by the project director.

VII. MAJOR ISSUES

- 7.1 Clear and continuous communication between the Country Office in Brazil and the Brazilian municipalities is key to project success. In this context, to avoid risks related to the lack of communication, regular meetings will be held between the specialists of the Country Office in Brazil and representatives of the municipalities. ICF/FMM will provide technical support to CSC/CBR and will participate to the dialogue and to the joint work of CSC/CBR and the Brazilian municipalities.

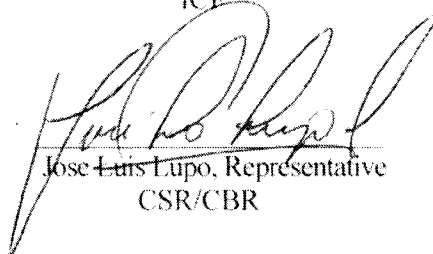
VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 8.1 When required for the type of investment to be executed, the technical feasibility studies of the projects that will be financed by the TC will include terms of reference to both mitigate eventual negative environmental impacts, such as the ones due to the construction of a sewerage system, and to also maximize the socio-environmental impacts of the investments. In that case the team to be hired will include international and local environmental and social impact specialists.

- 8.2 The team members propose the registration of the operation in the Category "C", coherently with the classification given by the Safeguard Filter of the CESI.

IX. APPROVAL

Approved by:  Date: 8/17/07
Luisa Rains, Manager a.i.
ICE

Concur:  Date: AUG 17 2007
Jose Luis Lupo, Representative
CSR/CBR

Concur:  Date: AUG 17 2007
Rafael Hernández, Asesor
ICF/ICF

PROCIDADES LOANS

	Number	Name	TOTAL US\$ 000	BID US\$ 000
1	BR-L1055	NITEROI	52,690	31,610
2	BR-L1057	VITORIA	65,236	39,142
3	BR-L1058	NOVA IGUAÇU	57,500	34,500
4	BR-L1056	NATAL	56,300	33,780
5	BR-L1085	TOLEDO	13,334	8,000
6	BR-L1077	BELFORD ROXO	40,000	24,000
7	BR-L1104	CAMPO GRANDE	35,240	17,620
8	BR-L1087	MARINGÁ	23,782	11,891
9	BR-L1083	CURITIBA	100,000	50,000
10	BR-L1084	ARACAJU	55,000	33,000
11	BR-L1099	PONTA GROSSA	15,000	7,500
12	BR-L1100	COLOMBO	18,375	9,188
13	BR-L1075	DUQUE DE CAXIAS	75,000	45,000
14	BR-L1080	JOÃO PESSOA	50,000	30,000
15	BR-L1086	PIRACICABA	32,000	16,000
16	BR-L1088	MANAUS	100,000	50,000
17	BR-L1094	LONDRINA	39,000	23,400
18	BR-L1095	ARAUCARIA	40,000	20,000
19	BR-L1096	ITAJAI	26,400	15,840
20	BR-L1076	GDF	63,600	38,160
21	BR-L1097	SÃO GONÇALO	20,000	12,000
22	BR-L1098	SÃO J. DO MERITI	33,000	16,500
23	BR-L1105	SANTA MARIA	16,816	8,408
24	BR-L1117	SÃO LUIS	24,712	12,356
25		RECIFE	40,404	19,062
26		GUARAPUAVA	24,000	11,000
27		SERRA	45,660	22,830
28		BARRA MANSA	25,770	12,885
		TOTAL	1.188,819	653,671

DETAILED BUDGET BY FUND AND PER COMPONENTS

Category	Unit Months	Stipend (\$/month)	JCF	Unit Months	Stipend (\$/month)	JSF	Local	Total
A. Honorarium								
Project Directors								
International Consultants	18	6,000	108,000					108,000
Component 1								
International Senior Consultants	27	5,500	148,500					148,500
Local Consultants	45	3,000	135,000					135,000
Sub-Total			283,500					283,500
Component 2								
International Senior Consultants	24	5,000	120,000					120,000
Local Consultants	20	3,000	60,000					60,000
Sub-Total			180,000					180,000
Component 3								
International Senior Consultants	24	5,000	120,000					120,000
Local Consultants	35	3,000	105,000					105,000
Sub-Total			225,000					225,000
Component 4								
International Senior Consultants				41	5,500	225,500		225,500
Local Consultants				42	3,000	126,000		126,000
Sub-Total						351,500		351,500
Sub-total A			796,500			351,500		1,148,000
B. Overheads			600,000			120,000		720,000
C. Travels and Expenses			52,400			20,600		73,000
D. General Support							500,000	500,000
Staff							400,000	
Logistics (Phone, fax, videoconferences, etc)							50,000	
Equipment							50,000	
E. Contingencies			51,100			7,900		59,000
Grand Total			1,500,000			500,000		2,500,000

MEMORANDUM

File Classification: JSF/JCF/BR/DAN

DATE: June 11, 2007

TO: Ms. Luisa C. Rains
Deputy Manager, RE1/RE1

FROM: Keisuke Nakamura
Deputy Manager, RE2/FSS

SUBJECT: Donor's Approval Notice

Source: Japan Special Fund (JSF) /Japanese Trust Fund for Consultancy Services (JCF)

Country: Brazil

Program: Support to the preparation of the loans for the three Brazilian municipalities of
São J. Do Meriti, Santa Maria, and São Luis

Amount: US\$2,000,000 (JSF \$500,000, JCF \$1,500,000)

The financing for the above-mentioned technical cooperation was formally accepted by the Government of Japan for funding with JSF and JCF resources.

In execution of the program, please observe the following:

1. The total amount approved (as above) should be considered as the absolute upper limit and should not be exceeded.
2. Project team should present to the JSF Coordinator the Plan of Operations for its concurrence and obtain the fund certification from JSF Coordinator before completing formal approval procedure by the Bank. If the Plan of Operations has major changes vis-à-vis the TC profile, the notice of donor's approval may be subject to withdrawal.
3. Project team should inform promptly to the JSF Coordinator any changes affecting the execution of the operation such as, but not limited to: 1) Reallocation of funds, 2) Amendments to plan of operations, 3) Termination and suspension of the project, 4) Extensions of final disbursement date, and 5) Cancellation and re-activation of disbursements.
4. Project team should consult with the JSF Coordinator before implementing substantial modifications to TC such as: 1) Fund reallocations of more than thirty percent (30%) of the total cost, 2) Additions of new components, and 3) Changes of executing agency.

5. The donor's approval will be withdrawn under the following circumstances: 1) the proposed TC have been withdrawn by beneficiaries, 2) the TC has not been approved by the Bank for more than 12 months after the donor's approval.
6. Project team should take necessary action including cancellation when there are no disbursements for six months after date of eligibility.
7. Please be reminded that the budget is an estimate of the expenses at this moment. Any surplus in the budget at the time the consultant services terminates should be returned to the Fund.
8. When concluding the program, please send us a copy of the final report together with a summary of expenses classified by item.

Cc: Mr. Manuel Rapoport, RE1/RE1
Mr. Juan Manuel Fariña, RE1/SO1/CHF
Ms. Riccardo Rietti, RE1/SO1
Mr. Waldemar W. Wirsig, COF/CBR