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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
THE HOUSING SECTOR TECHNICAL ASSISTANCE LOAN
November 10, 2005
TO THE
FEDERATIVE REPUBLIC OF BRAZIL

April 15, 2010

BRAZIL

HOUSING SECTOR TECHNICAL ASSISTANCE LOAN

I. Introductory Statement

1. This Project Paper seeks the approval of the Executive Directors to restructure the Brazil Housing Sector Technical Assistance Loan (Loan No.7338) (the Project) and proceed with the amendment of the Loan Agreement entered into between the Federative Republic of Brazil (the Borrower) and the International Bank for Reconstruction and Development (the Bank) dated September 21, 2006. The proposed restructuring is aimed at adjusting Project objectives and activities with the current priorities of the Borrower and reflect a reduced loan amount.

2. The proposed restructuring includes the following: (i) revision of the Project Development Objective (PDO); (ii) elimination of a component on Housing Finance Market Development; (iii) restructuring of the remaining three components into two components; (iv) revision of the Monitoring Indicators to reflect the changes to the Project components; and (v) introduction of Single Source Selection among the Particular Methods of Procurement of Consultants' Services to be used in the project.

3. Recognizing the need to reduce the scope of the Project and realign its activities to reflect the shift in Government priorities, in March 30, 2009, the Borrower notified of a cancellation of US\$ 2.7 million of the original loan amount of US\$4.0 million and an extension of the Closing Date from September 30, 2009 to December 31, 2010. The request was approved by the Country Director in a letter dated May 18, 2009. It is expected that the above-detailed changes will strengthen Project design and greatly assist the Borrower with the achievement of satisfactory outcomes in line with the reduced loan amount and current Government priorities.

II. Background and Reasons for Restructuring

4. On June 14, 2005, the Bank Board approved the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform (Loan 7306-BR). This Development Policy Loan (DPL) operation was part of a set of four loans (two related to housing and two related to employment and poverty) to support the Government of Brazil in its agenda for sustainable and equitable growth. An accompanying Technical Assistance Loan, the Project, was approved by the Board on November 10, 2005 to assist the Government in pursuing its new housing policy and design the necessary policy reforms which would be in part supported by Bank lending through the planned second DPL.

5. The original PDO of the Technical Assistance Loan (TAL) was to support the implementation, monitoring, and evaluation of the Government reform program supported by the above referenced DPL. The Housing Sector DPL aimed to improve the policy environment for improving the living conditions of the poor and strengthening their access to assets, notably housing and serviced/serviceable land and was embedded in the cluster of support for the Government's growth agenda. The TAL was designed to

mirror the components of the Housing Sector DPL, specifically: (i) Supporting the Institutional and Legal Framework for Housing Policy; (ii) Housing Finance Market Development; (iii) Housing Subsidies for the Poor; and (iv) Land and Urban Development.

6. The first housing sector DPL was a single-tranche loan that closed June 30, 2006. The Implementation Completion and Results Report (ICR) for this DPL was completed June 30, 2009. As the DPL program was initially planned to include four loans, it was originally conceived that one consolidated ICR would be completed six months after the closing date of the last DPL in the series, which would have been the second housing sector DPL. However, the second housing DPL did not move forward as Government did not require a fast-disbursing loan at this time due to its improved fiscal stance. Therefore, the second employment and poverty DPL, which closed June 30, 2008, became the last DPL in the series and their respective ICRs were prepared separately.

7. Over two years after Effectiveness, the amount of Loan proceeds disbursed from the Housing TAL remains extremely low at 0.8% of the original loan amount (or 2.3% of the reduced loan amount). Implementation progress was upgraded from “moderately satisfactory” to “satisfactory” in the ISR of May 2009 reflecting the actions taken by the Government to reduce the scope of the Project and confirmation that the new implementation plan—prepared for the reduced loan amount—shows that loan proceeds can be fully utilized by the new extended closing date.

8. There are three main issues that have negatively impacted Project implementation and disbursement to date and would be resolved through the proposed restructuring:

9. The first issue is a shift in Government priorities. The Housing Sector DPL, for which the TAL was designed to support, closed in June 2006 and its ICR was completed June 2009. During that period, the housing sector increased in prominence within the national agenda. First, within the PAC (*Programa de Aceleração do Crescimento*), housing was allocated R\$ 10.7 billion for 268 urban upgrading initiatives. Second, the recent R\$ 34 billion economic stimulus package, *Minha Casa, Minha Vida*, focuses on the housing sector, and specifically on the provision of housing for low-income families. The package includes upfront subsidies combined with housing loans, infrastructure financing, and housing production chain financing. The Government’s objectives in the housing sector, especially with only one year remaining in the presidential term, have shifted from sector-wide policy development to the execution of these large investment programs. The proposed restructuring would address this shift in priorities by focusing on technical assistance that would facilitate the role of the Ministry of Cities, especially the National Housing Secretariat, in these large programs and by strengthening knowledge at the local level necessary to improve the implementation of them.

10. The second issue is availability of other funds to implement key activities. For example, the preparation of the National Housing Plan, which was financed using funds from an existing IDB project (Habitar Brasil-BID¹), is currently at a final stage. Contracts

¹ Habitar Brasil BID was a US\$250 loan signed in 1999. As of December 2005, the procurement plan was revised to include funding for the preparation of the National Housing Plan and related studies.

related to the National Housing Plan and subsidy policy represented approximately 20% of the original TAL budget, which are no longer needed.

11. The design and development of a monitoring and development system represented the largest portion of the original Loan allocation at US\$1.13 million or approximately 28% of the loan amount. The latest draft of the procurement plan, prior to the partial cancellation of loan in May 2009, allocated as much as 48% of the budget for the M&E system. Yet, after unsuccessful attempts within the Ministry of Cities to use the loan funds to hire a consultant to prepare the diagnostic and design of an M&E system, the Ministry of Cities' National Housing Secretariat decided to remove the activity from the TAL due to the unlikeliness of being able to complete it prior to the loan closure.

12. Given that the National Housing Plan was completed and financed outside of the loan, and that there is no longer demand from the Borrower to use loan funds for the development of an M&E system, the Housing TAL components would have a revised focus on institutional strengthening related to capacity building for social housing programs at the local level (including distance learning programs and technical assistance in the preparation of state-level housing plans) and specific technical assistance needs within the Ministry of Cities, and especially the National Housing Secretariat.

13. The third issue is difficulty in the procurement process of studies to be financed under the TAL, including the unavailability of consultants in Brazil with the necessary housing sector expertise to execute the contracts. The Housing TAL faced initial delays, including a lag of more than a year between approval and effectiveness. Once the project moved to the implementation phase, the Ministry of Cities encountered difficulties in the execution of the loan, especially in the development of Terms of Reference for consultancy assignments due to obstacles in the adaptation of procurement procedures stipulated in the loan agreement to Brazilian law (all proposed contracts must be reviewed and approved by the Ministry's legal department ahead of being sent to the Bank). The situation was particularly compounded by the difficulties faced in hiring local consultants (requiring proof that no Ministry staff has the skills to implement the specific task) and international consultants (as it must be proven that no Brazilian consultant is capable of performing the task), which proved time-consuming.

14. The revised scope of the project and the related procurement plan is now limited to contracts that have either already been approved within the Ministry of Cities or that have specifications that make their approval highly likely.

15. With significant Government support, the Project restructuring will address the new priority needs of the Borrower, while expediting Loan disbursements.

III. Proposed Changes

16. The Bank has worked with the Borrower to define an updated set of activities that could be implemented by 2010 and which would better meet the current needs of the Government. Based on the Government's request and the evolving housing sector agenda in Brazil, the PDO is revised, one component is dropped, the three remaining components

are consolidated into two, and Sole Source Selection is added to the Particular Methods of Procurement of Consultants' Services to be used in the project.

17. The initial PDO as defined in the Loan Agreement was to "assist the Borrower in the implementation, monitoring and evaluation of the Program".² The proposed revised PDO is: "To strengthen the Ministry of Cities' capacity to manage housing and urban development policy and programs at the federal level and to improve capacity for the development of social housing programs at the local level."

18. The project initially had four components, as follows: (A) Institutional and Legal Framework for Housing Policy; (B) Housing Finance Market Development; (C) Housing Subsidies for the Poor; and (D) Land and Urban Development. The restructuring proposes to eliminate Component B on Housing Finance Market Development and restructure the remaining three components (A, C and D) into two components.

19. As such, the restructuring's proposed two components to substitute for the initial four components are:

20. **Institutional Strengthening and Support for the National Housing System** through the allocation of US\$715,000 in order to support the elaboration of housing subsidies programs, technical assistance to the Ministry of Cities' National Housing Secretariat, strengthening of knowledge related to construction technology, and the development of methodologies for the collection of real estate market data in Brazil.

21. **Capacity Building of Urban Development at the Local Level** through the allocation of US\$575,000 in order to support distance learning programs related to the preparation of local social housing plans, urban upgrading, and the integration of social work in social housing developments.

22. Table 1 presents the revised project components, objectives and activities. Table 2 represents the proposed reallocation in terms of categories of expenditures - Schedule 1.

² Program is defined as "Program to support policy reforms in the Borrower's housing sector, particularly regarding low income housing, aimed at increasing housing affordability and improving urban development," which was supported by the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform.

Table 1 – Revised Project Structure and Objectives

Component	Intermediate Objective	Activities
(1) Institutional Strengthening and Support for the National Housing System	Improved capacity within the Ministry of Cities to develop housing policies	<ul style="list-style-type: none"> • Technical assistance in public finance • Technical assistance and support to the Ministry of Cities’ National Secretariat of Housing • Technical assistance in the preparation of housing subsidy policy • Technical assistance in construction technology • Study of methodologies for real estate sector data collection in Brazil • Publications
(2) Capacity Building in Urban Development at the Local Level	Improved capacity at the local level to development social housing projects	<ul style="list-style-type: none"> • Distance learning course in urban upgrading • Distance learning course on the preparation of local social housing plans • Distance learning course on the integration of social work in social housing projects

Table 2 – Revised Schedule 1

Category	Amount of the Original Loan Allocated (USD)	Amount of the Revised Loan Allocated (USD)	% of Expenditures to be Financed
(1) Goods, consultants’ services and training	3,990,000	1, 290,000	100%
(2) Front-end fee	10,000	10,000	Amount due pursuant to Section 2.04 of this Agreement
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	0	Amount due under Section 2.09 (c) of this Agreement
	4,000,000	1,300,000	

23. The restructuring proposes to add Sole Source Selection among the Particular Methods of Procurement of Consultants’ Services to be used in the project. This would enable the Ministry of Cities among other activities to undertake an update of its flagship study and publication about the national housing deficit in Brazil, which helps to inform policymaking especially on the allocation of housing subsidies/incentives to address the existing housing deficit. This study, which has been undertaken in previous years and is periodically updated and published, is undertaken by the Fundação João Pinheiro using a specific proprietary methodology.

IV. Analysis

24. The proposed changes do not have a major effect on the original economic, financial, technical, institutional, or social aspects of the Project as appraised.
25. The proposed changes do not change the Project’s environmental classification (Category C) nor trigger the application of any new, or exceptions to any Bank safeguard policies.
26. The restructuring does not involve any exceptions to Bank policies.

V. Expected Outcomes

27. The Results Framework and Monitoring Indicators table in “Supplemental Letter No. 1: Monitoring Indicators”, dated September 21, 2006, has been revised to reflect changes in outcome indicators and intermediate results. The initial and revised formulations are presented in Table 3, with their respective justifications.

Table 3- Reformulation of the PDO, Outcome Indicators and Intermediate Results

Current	Revised	Justification
<u>PDO:</u> Support and inform the implementation, monitoring, and evaluation of the Government reform program supported by the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform.	<u>PDO:</u> Strengthen the Ministry of Cities’ capacity to manage housing and urban development policy and programs at the federal level, and improve capacity for the development of social housing programs at the local level.	
<u>Outcome Indicators:</u> <ul style="list-style-type: none"> • Subsequent DPL triggers are met (as far as they are supported by the TAL) • Program implementation, monitoring and evaluation based on the results of the analytical and technical work of the TAL 	<u>Outcome Indicators:</u> <ul style="list-style-type: none"> • Improved capacity at the Ministry of Cities to develop housing and urban development policies and at the local level to implement housing programs 	Reflects the reduced scope of the Loan and the specific focus on the Ministry of Cities’ National Housing Secretariat.
<u>Intermediate Results:</u> <ul style="list-style-type: none"> • Strengthen sector institutions and consolidate the National Housing Secretariat as the key technical policy entity in the housing sector. • Strengthen the housing finance legal and regulatory framework. • Improve the harmonization, management, targeting, monitoring and evaluation of 	<u>Intermediate Results:</u> <ul style="list-style-type: none"> • Improved capacity within the Ministry of Cities to develop housing and urban development policies. • Improved capacity at the local level to develop social housing programs and projects. 	Reflects the reduced scope of the Loan and the specific focus on the Ministry of Cities’ National Housing Secretariat.

<p>Government subsidy programs.</p> <ul style="list-style-type: none"> • Improve urban development through the strengthening of the capacity of federal and local entities. 		
<p><u>Indicators Component 1:</u></p> <ul style="list-style-type: none"> • Workshops to broadly disseminate the NHP and discuss its content with stakeholders held • Preparation of a draft law for the National Housing Policy • Finalization of the National Housing Plan • Strengthening of the capacity of the SNH • Preparation of the comprehensive regulations for operation of the FNHIS 	<p><u>Indicators revised Comp 1:</u></p> <ul style="list-style-type: none"> • The National Housing Plan finalized • Guidelines for the management of housing subsidies prepared • Number of government employees provided with Capacity building in national subsidy programs • Methodology for the collection of housing market data completed 	
<p><u>Indicators Component 2:</u></p> <ul style="list-style-type: none"> • Workshops held to discuss housing market credibility with judiciary and legislators • Study completed on possibilities for credit insurance market development • Strategic study on the future of FGTS completed 	<p><u>Indicators revised Comp 2:</u></p> <ul style="list-style-type: none"> • Guidelines for social work in social housing projects prepared • Participation of 1,400 local government employees in a distance learning course on social work • Participation of 525 local government employees in a distance learning course on urban upgrading • Participation of 3,000 local government employees in a distance learning course on the preparation of local housing plans 	
<p><u>Indicators Component 3:</u></p> <ul style="list-style-type: none"> • The Government has prepared a program for the harmonization of subsidies, including OGU and off budget resources (including FGTS). • Workshops for dissemination of housing subsidy programs held. • Preparation and dissemination of new PSH and other subsidy program training materials. • Completion of studies on transforming PSH <i>parcelamento</i> into a block grant program, 		<p>Simplified and consolidated in Revised Component 1.</p>

including the use of municipal contributions in bid evaluation.		
<p><u>Indicators Component 4:</u></p> <ul style="list-style-type: none"> • Completion of a diagnosis of the compatibility of the environmental framework with the new land subdivision law. • Preparation of toolkits for (a) cadastre and registry development; (b) risk management and definition of ZEIS areas; and (c) progressive infrastructure development and management. 		Topic consolidated in Revised Component 2 and focused on capacity building through distance learning courses.

IV. Benefits and Risks

28. The primary benefit of the restructured project is an enhanced capacity of the National Housing Secretariat to develop and manage housing policy, and its ability to provide capacity building opportunities to local governments.

29. There are two main risks that could jeopardize the achievement of the restructured outcome targets. First, the borrower could experience further procurement delays and obstacles which could result in not completing some of the Project activities within the agreed timeframe (current closing date of December 31, 2010). This risk is considered to be moderate because the major activities included in the revised scope are either underway or in the final stages of contracting. The second risk is that the presidential elections in 2010 will cause turn-over within the Ministry of Cities/National Housing Secretariat and/or a significant change in policy action that would slow or stop implementation. This risk is also considered to be low because the revised scope is very limited and does not include activities that could be considered politically sensitive. This second risk is mitigated by the fact that all Project activities should be underway by early 2010.