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The World Bank

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Report No: 31691-BR

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$4.0 MILLION

TO THE

FEDERATIVE REPUBLIC OF BRAZIL

FOR A

HOUSING SECTOR TECHNICAL ASSISTANCE LOAN

October 13, 2005

FINANCE, PRIVATE SECTOR, AND INFRASTRUCTURE
BRAZIL COUNTRY MANAGEMENT UNIT
LATIN AMERICA AND THE CARIBBEAN REGION

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CURRENCY EQUIVALENTS
(Exchange Rate Effective August 31, 2005)

Currency Unit = Brazilian Real (BR\$)
BR\$ 2.4025 = US\$ 1
US\$ 0.416 = BR\$ 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BNDES	National Bank for Economic and Social Development (<i>Banco Nacional de Desenvolvimento Economico e Social</i>)
CAS	Country Assistance Strategy
CEF	Federal Loan and Savings Bank (<i>Caixa Econômica Federal</i>)
CFAA	Country Financial Accountability Assessment
CNM	National Monetary Council (<i>Conselho Nacional Monetário</i>)
CQ	Consultants' Qualifications
CVM	Security and Exchange Commission (<i>Comissão de Valores Mobiliários</i>)
DPL	Development Policy Loan
FAT	Workers' Assistance Fund (<i>Fundo de Assistencia aos Trabalhadores</i>)
FM	Financial Management
FMR	Financial Management Report
FNHIS	National Housing and Social Interest Fund (<i>Fundo Nacional de Habitação de Interesse Social</i>)
GTI-SFH	Interministerial Housing Policy Group (<i>Grupo de Trabalho Interministerial de Acompanhamento das Políticas de Financiamento e Subsídios à Habitação</i>)
FGTS	Workers Severance Fund (<i>Fundo de Garantia de Tempo de Serviço</i>)
ICB	International Competitive Bidding
IBGE	Brazilian Statistical Institute (<i>Instituto Brasileiro de Geografia Estatística</i>)
IBRD	International Bank for Reconstruction and Development
IPEA	Institute of Applied Economics (<i>Instituto de Pesquisa Economica Aplicada</i>)
MOC	Ministry of Cities (<i>Ministerio das Cidades</i>)
LCR	Latin America and the Caribbean Region
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MP	<i>Medida Provisória</i> (Project Law Issued by the Executive)
MW	Minimum wage (1MW=R\$ 300 at Negotiations)
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
NHP	National Housing Policy

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NPV	Net Present Value
OGU	Federal Budget (<i>Orçamento Gerão da União</i>)
OP	Operational Policy
PAR	Social Rental Program (<i>Programa de Arrendamento Residencial</i>)
PAU	Policy Analysis Unit
PSH	Social Housing Program (<i>Programa de Habitação de Interesse Social</i>)
QBS	Quality Based Selection
SBD	Standard Bidding Document
SBPE	Brazilian Savings and Loan System (<i>Sistema Brasileiro de Poupança e Empréstimo</i>)
SFH	Housing Finance System (<i>Sistema Financeiro de Habitação</i>)
SFI	Real Estate Finance System (<i>Sistema Financeiro Imobiliário</i>)
SNH	National Housing Secretariat (<i>Secretaria Nacional de Habitação</i>)
SOE	Statement of Expenditure
STN	Treasury (<i>Secretaria do Tesouro Nacional</i>)
SWAp	Sector Wide Approach
TA	Technical Assistance
TAL	Technical Assistance Loan
TR	Reference Interest Rate (<i>Taxa de Referencia</i>)

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BRAZIL
HOUSING SECTOR TECHNICAL ASSISTANCE PROJECT

Project Appraisal Document

Date: October 13, 2005	Team Leader: David Sislen / Maria Emilia Freire
Acting Country Director: Ulrich Zachau	Sectors: Housing Finance, Public Sector Management, Poverty Alleviation
Sector Director/Manager: Makhtar Diop / John Henry Stein	Themes: Urban Development (P); Access of the Poor to Public Services, Municipal Management (S)
Project ID: P050761	Environmental screening category: Category C
Lending Instrument: Technical Assistance Loan	Safeguard screening category: No impact

Project Financing Data

[X] Loan [] Credit [] Grant [] Guarantee [] Other:

For Loans/Credits/Others:

Loan Currency: United States Dollars
 Amount of Loan: US\$ 4.0 million
 Proposed terms: **Fixed-Spread Loan (FSL)** with principal repayments linked to commitments, with a variable rate with automatic rate fixing every six months and a standard repayment schedule with a total term of 17 years and a grace period of 5 years

Financing Plan (US\$ m)

Source	Local	Foreign	Total
INTERNATIONAL BANK FOR	2.0	2.0	4.0
Total:	2.0	2.0	4.0

Contact person: Ines Magalhaes, National Secretary for Housing, Ministry of the Cities, Brasilia
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Estimated disbursements (Bank FY/US\$m)

FY	2006	2007	2008	2009				
Annual	1.60	1.07	0.80	0.53				
Cumulative	1.60	2.67	3.47	4.00				

Does the project depart from the CAS in content or other significant respects?	[] Yes [X] No
Does the project require any exceptions from Bank policies?	[] Yes [X] No
Does the project include any critical risks rated "substantial" or "high"?	[] Yes [X] No
Does the project meet the Regional criteria for readiness for implementation?	[X] Yes [] No

Project development objective **Ref. PAD B.2, Technical Annex 3**

The development objective of the proposed TAL would be to support the implementation, monitoring, and evaluation of the Government reform program supported by the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform. The Housing Sector Reform Loan aims 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 would be embedded in the cluster of support for the Government's growth agenda, presented to the Bank's Board of Executive Directors in anticipation of the proposed TAL. The DPL supports the Government's program to (a) strengthen the sector institutions managing Federal housing and urban development policy and programs; (b) build an efficient market for formal housing finance capable of absorbing long-term savings and which will provide a stock of finished housing for medium-term down-filtering of middle class housing; (c) establish a rational and complementary system for housing subsidies for the poor; and (d) improve the conditions for land and urban development by reducing barriers to formality and improving the affordability of formal land and housing development.

Project description [*one-sentence summary of each component*] **Ref. PAD B.3.a, Technical Annex 4**

The four components of the TAL are:

Component 1: Supporting the Institutional and Legal Framework for Housing Policy (US\$ 1.31 million). The TAL would include resources to support the Ministry of Cities in its internal reorganization, including the consolidation of the National Housing Secretariat as the key technical and policy entity for coordinating policy design across the many public sector actors.

Component 2: Housing Finance Market Development (US\$0.29 million). The Housing Finance Market Development Component would support the improvement of the legal and regulatory framework for housing loans, including incremental reforms to the existing housing finance system, the future integration of SBPE in the full market system, and overall strengthening of the market-based Housing Finance System (SFI).

Component 3: Housing Subsidies for the Poor (US\$ 1.33 million). The focus of technical assistance activities as relates to housing subsidy policy would be the rationalization of the Government's various subsidy programs and the establishment of effective targeting, monitoring, and evaluation mechanisms.

Component 4: Land and Urban Development (US\$ 1.06 million). The component would include the provision of technical assistance for (a) the design and implementation of programs of the Ministry of Cities to strengthen local governments in their efforts to achieve accreditation of their institutional capacity to take the lead in local urban development policy setting and implementation (*gestão própria*); and (b) the development of a national urban upgrading program, including, inter alia, (i) research, monitoring, and evaluation activities, at the Borrower's federal level, of policy and regulatory efforts for urban development and land subdivision; and (ii) a series of activities to facilitate the implementation of the policy innovations under the Program for progressive housing development, the preparation of local master plans (*planos diretores*), and demand-side organization for housing subsidy programs.

Which safeguard policies are triggered, if any? **Ref. PAD D.6**

There are no safeguard policies triggered.

Significant, non-standard conditions, **if any**, for:
Ref. PAD C.5

Board presentation:

N/A

Loan Effectiveness:

N/A

Covenants applicable to project implementation:

N/A

BRAZIL
Housing Sector Technical Assistance Loan

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A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Background and Key Sector Issues. Brazil is among the most urbanized countries in Latin America, with approximately 80% of the population living in urban areas and 90% of the country's GDP being generated in cities. Access to housing and reliable urban services is essential to poverty reduction and growth in Brazil, with housing being a potentially important component of the economy, contributing to job creation (housing investment has a multiplier effect of 1.8), expansion of the finance system and creation of household wealth. In the past, Brazil's performance in this area has been woefully inadequate; outstanding mortgage loans are approximately 3-4% of GDP (compared with 15% in Chile and 65% in the US), the housing "deficit" is estimated at 7.1 million units (equivalent to 28 million people without access to adequate shelter); urban informal settlements are growing 4 times faster than average urban growth; and an estimated 65% of new households formed annually cannot afford the most basic house produced in the formal market (700,000 households per year).

In February 2001, Brazil's Congress passed a constitutional amendment which guarantees the right to adequate housing for all Brazilians. Accomplishing this ambitious goal while maintaining fiscal and political discipline represents a major challenge; defining the role of the public sector in meeting the housing needs of Brazil's poor population requires comprehensive and sustained policy reform and investment, with a focused effort to mobilize financial sector resources and private sector savings. While the issue of housing and the attendant social, economic, environmental, and health issues which stem from the sustainable urban development agenda was a priority in the electoral campaign of the President, elected in 2002, progress has been slow in the last two years, in large part as a result of the fiscal restrictions self-imposed by the Government and the initiation of administrative and institutional reforms to manage the sector.

The key issues facing the country include:

- The need to rationalize sector institutions and strengthen the capacity of public-sector institutions to design, monitor, and implement housing and urban development policy. The formal housing system in Brazil is a complex web of federal entities, private sector developers, and state and local governments. Over the last fifteen years, responsibility for housing and urban issues has been transferred to a number of ministries and secretariats, resulting in a general mismanagement of the sector and an obvious lack of policy direction. In the context of the Government's decision to transform the sector and make housing a national priority, efforts are needed to establish a coherent public sector structure able to formulate national housing and urban policy and to coordinate the various agents and authorities at the federal, state and local levels. While the creation of the Ministry of Cities in 2002 represents an important first step, efforts are needed to (a) articulate the strategic direction for the housing sector; (b) establish a national program for housing finance while avoiding the bottleneck risks of a single-window for transferring sector resources; (c) link federal housing policy and finances to other policy efforts at the local and state level; and (d) significantly strengthen the Ministry of Cities' capacity and policy relevance through a series of institutional reforms.
- The need to create a liquid and efficient formal housing market. The absence of an efficient market for formal housing credit has a direct impact on the lower- and lower-middle income households directly and indirectly. On the one hand, housing finance markets are incomplete and do not serve large segments of the low-income population because the costs and risks to do so are too high. On the other hand, a well functioning mortgage market for higher-income households is critical, in the medium-term, to poorer households as it creates a stock of financed housing which can "filter" down.

While the overall market dynamic is in large part driven by the macroeconomic conditions and public sector debt-related interest rate dynamic, the short-term policy agenda is rich. Simultaneous efforts are needed to (a) provide access to housing finance to households which could afford monthly mortgage payments but which lack a stock of savings for the current high levels of down payment of 30 to 40 percent required; (b) incorporate micro-lenders into the housing finance market by increasing their access to the below-market rate funds to which large financial institutions currently have access; and (c) improve the legal and regulatory framework which governs the formal market, including the management and administration of the Workers Severance Fund (*Fundo de Garantia do Tempo de Serviço*, or FGTS) resources.

- The absence of a consistent and broad program of subsidies for the poor. Well-targeted subsidies for the poor are an important aspect of any housing market. In the absence of an efficient private market for very basic low income housing (because costs and risks are too high for formal market players to enter), and in order to compensate for the costs imposed by inappropriate regulation and market inefficiencies, subsidies in the short-term can help bridge the wide affordability gap which, in principle, could narrow in the medium-term as unaffordable planning regulations are removed, land management systems improved, and the structure of the housing finance system made more efficient. The key challenge for the Government will be to establish a housing subsidy policy which is both of high impact and efficient, maximizing the impact of limited fiscal resources by leveraging credit from the financial system.
- The high costs – both financial and administrative – of land development, subdivision, and housing creation. The lack of formality in which new settlements for the urban poor emerge is a key driver of the creation of slums (*favelas*) and the vicious cycle of marginalization of Brazil's urban poor. Inhabitants of informal / illegal settlements are often unable to access public services, have limited access to legal recourse, etc. It has taken decades for Brazil to recognize that a policy environment which creates incentives for formality is a key pillar of both rational urban development and the overall poverty-reduction and growth agenda. The key challenges for Brazil are to address both the stock and flow of informality through (a) a concerted effort to formalize existing slums and improve their access to basic public services by developing a national slum upgrading strategy and a program of financing for urban upgrading; and (b) reducing the costs of new land development, subdivision, and registration.

The Government's medium-term strategy to improve access to affordable housing for the poor has 4 key tenets:

- Rationalize sector institutions and the legal and regulatory framework for housing and urban development. The Government aims to strengthen the capacity of the Ministry of Cities to formulate, articulate, and implement housing and urban development policy in Brazil. Some of the efforts underway include (a) the creation of a National Housing Plan (NHP) which would identify the targets, priorities, and key sector investment programs; (b) restructuring the Ministry of Cities to establish the needed institutional framework for cogent sector management, including the establishment of an interagency coordinating mechanism to manage sector dialogue across the public sector; (c) the establishment of a National Low Income Housing Fund (FNHIS) to finance the NHP; and (d) initiatives to extend technical assistance to state and municipal governments for the implementation of the many locally managed aspects of housing development policies.
- Support the development of a formal housing finance market. Since the mid-90s, Brazilian authorities have been struggling to restructure the country's housing finance sector and to enhance the role and impact of the market-based housing finance system (SFI) and to improve the existing savings-linked

Sistema Brasileiro de Poupança e Emprestimo (SBPE) and the higher-end market based mortgage system, known as the SFI (*Sistema Financeiro Imobiliário*). As regards SBPE, the key efforts in coming months and years will focus on the orderly and phased expansion and the integration of SBPE in the full market system and broaden its reach through changes to the targeting and weighting of loans eligible for financing. For the broader SFI, the Government aims to set the stage for a gradual expansion of market-based finance as market conditions evolve.

- Address affordability of housing through the creation of a comprehensive housing subsidy policy. The Government is implementing a multi-pronged approach as regards housing subsidies: (a) to dramatically increase the amount of finances in the system; (b) to move away from implicit interest rate subsidies to explicit upfront grants; and (c) to separate credit-linked subsidies from non-credit related grants. The Government has created the *Programa Social de Habitação* (PSH), which combines an upfront down-payment subsidy to households with an upfront subsidy to lenders to compensate them for the extra risks and costs in lending to lower income households, and a well conceptualized auction system for participating financial agents. At the same time, the Federal Pension Severance Guarantee Fund (FGTS) has established a similar program for upfront housing subsidies for the poor.
- Reduce the barriers to formality of housing and services for the poor. The Government is supporting efforts to break the cycle of overregulation and informality which has dominated the growth of urban areas in Brazil for the last 30 years and which is most evident in the expanses of urban and peri-urban slums that characterize Brazilian cities. The Government's strategy involves: (a) supporting a new law for land subdivision and development which aims to increase the supply of urban land by reducing the administrative requirements for new urban development (e.g. minimum lot sizes, overly onerous requirements for public spaces as a percentage of new development, unrealistic infrastructure dimensioning requirements, etc.); (b) enforcing the existing legal and administrative mechanisms required to regularize existing slums; and (c) extending technical assistance and capacity building to state and, particularly, municipal governments, the latter of which will play the key role as interface between the public sector and developers, financial institutions, and residents.

2. Rationale for Bank involvement

CAS Linkage. The program is fully consistent with the Brazil CAS, discussed by the Bank's Board of Directors on December 9, 2003, as it supports the three main pillars of equity, sustainability and competitiveness. Most fundamentally, the operation would support capacity building efforts linked to the Government's initiatives to improve access to affordable housing and basic services and strengthen the real assets of the poor. Housing often serves as a key source of capital accumulation and income generation for low/moderate-income households, and improving urban development enhances the efficiency and competitiveness of cities, which account disproportionately for national economic growth. In addition, the comprehensive reforms being undertaken by the Government would increase the sustainability and competitiveness of the housing finance sector. Further, the results-based-CAS sets the framework for monitoring progress towards achieving the CAS goals. Within that framework, the CAS states specifically that the TAL and proposed housing sector SWAp would contribute to a more sustainable Brazil. The CAS identifies as medium-term outcomes: (a) that housing programs be better targeted to the poorest; and (b) the reform of housing finance and land development regulation.

Rationale for Bank Involvement. The Bank is uniquely positioned to support the Government's program. First, the Bank is a natural partner given its lead in engaging the Government in housing and urban development policy dialogue over the last three years. Second, the proposed program is fully consistent with the CAS objective of building a more sustainable and equitable Brazil, as it will support the

Government's efforts to increase the number of households with access to safe and secure formal housing and services. Third, the proposed operation supports the Government's efforts maximize the efficiency of housing market interventions through improvements to the structure and targeting of federal subsidy programs and through the reduction of supply-side constraints for housing and land development. Fourth, the Bank's proposed engagement leverages its ability to simultaneously bring financial support for programmatic policy reform, technical assistance for policy design and capacity building, and investment-linked support for housing subsidy programs.

3. Higher level objectives to which the project contributes

The proposed TAL and accompanying Development Policy Loan (DPL) directly contribute to the Government's poverty reduction and growth agendas. As regards the former, the package of policy reforms and accompanying technical assistance intend to increase the access of Brazil's poor to affordable shelter solutions through increased access and more efficient use of public sector subsidies, and through the strengthening of the housing finance system, a critical element in expanding the stock of housing. The operations contribute to growth, both through the financial system reforms and through housing-related investment and consumption.

4. Poverty Impact

Housing Policy and Poverty. The Government has committed itself to the objective of reducing Brazil's rate of extreme poverty by 50% by the year 2015. The strategy to achieve this objective includes sustained economic growth based on financial stability, investments in the poor through better education, health and other social services as well as improved access to physical and financial capital, improved access and enhanced social protection including social assistance and conditional cash transfers linked to specific social targets. World Bank financed projects support several elements of this poverty reduction strategy. World Bank analysis shows that the Government's poverty reduction strategy can be achieved through a combination of 4.5% annual growth, continued increases in educational outcomes and human capital, and further improvements in social policies.

The TAL supports the Government's housing reforms, which have been designed to benefit Brazil's poor and are considered essential to improve the access of the poor to physical and financial assets and to improve the human capital of the poorest segments of the society. Specifically, the proposed reforms would have a bearing on poverty reduction by: (a) increasing the access of the poor to essential shelter services; (b) enhancing their capacity to accumulate physical assets, access credit, improve self-image; and (c) contribute directly to increased social capital in poor communities. Indirectly, access to improved shelter has been demonstrated to lead to higher returns for their children's education and expand opportunities for higher paid jobs.¹

The reforms supported by the housing reform-focused DPLs (which form a part of the cluster of operations linked to the Government's growth agenda) which the proposed TAL supports, would help increase the access to adequate housing through different ways, including better targeted subsidies to the poor (formerly excluded from subsidized public lending for housing), improving the availability of mortgage credit to low income families – with the benefit of teaching the financial market how to work with this type of clients and therefore contribute towards a less perceived risk – expanding the policy making capacity of the government structures in terms of land policy, regulations and other supply

¹ Access to adequate shelter or housing services can help predict subsequent improvement in both cash income of the family as well as its well-being measured by health indicators, education performance (including dropout rates) and probability of exiting extreme poverty (Geoffrey Payne, 2004).

bottlenecks, while contributing to a more liquid and seamless housing finance market attracting a wider base of resources for the low income segment.

B. PROJECT DESCRIPTION

1. Lending instrument

Integrated Bank Support to the Government's Program. Bank support to the Government's housing reform and investment program would be structured over the next four years or so and would comprise (a) Development Policy Loans aligned with the Government's budget cycle and linked to federal policy reform efforts, including the establishment of a sector-wide housing subsidy program; (b) the proposed Technical Assistance Loan (TAL) which would support efforts to strengthen the capacity of the Government to formulate and implement housing and urban sector policy; and (c) a possible investment-linked operation, to be prepared under the Sector Wide Approach (SWAp) modality, which the Government has requested to finance the harmonized subsidy program expected to emerge before the second phase of the housing sector program. The proposed loan supports the establishment of the institutional and policy environment for sustainable housing sector development consistent with the emerging national priorities and would identify the medium-term trajectory of housing and urban policy, setting the stage for follow-on DPL, the focus of which will be to enhance the effectiveness of the housing finance system and the targeting and transparency of subsidy programs.

Table 1: Bank Support for Housing Sector Reform and Investment	
Instrument	Requested Bank Financing (US\$ million)
DPL I	500.0
Technical Assistance Loan	4.0
DPL II	200.0
Housing Subsidy Sector Investment Program (SWAp)	300.0
DPL III	200.0

2. Project development objective and key indicators

Project Development Objective. The development objective of the proposed TAL would be to support the implementation, monitoring, and evaluation of the Government reform program supported by the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform. The DPL, presented to the Board in late FY05, aims 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 would be embedded in the cluster of support for the Government's growth agenda. The DPL supports the Government's program to (a) strengthen the sector institutions managing Federal housing and urban development policy and programs; (b) build an efficient market for formal housing finance capable of absorbing long-term savings and which will provide a stock of finished housing for medium-term down-filtering of middle class housing; (c) establish a rational and complementary system for housing subsidies for the poor; and (d) improve the conditions for land and urban development by reducing barriers to formality and improving the affordability of formal land and housing development.

Key Indicators. The key indicators of TAL implementation are directly related to (a) the implementation of capacity building; (b) the Government's overall policy trajectory; and (c) the use of information and knowledge generated by the TAL in redesigning and refocusing the Government's policy initiatives. Among the key indicators (see Annex 3 for the complete list of indicators) are:

Overall Indicators

- Subsequent Housing 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

Component 1 – Institutional and Legal Framework

- Preparation of a draft law for the National Housing Policy
- Finalization of the National Housing Plan
- Preparation of the comprehensive regulations for operation of the FNHIS

Component 2 – Housing Finance Market Development

- Workshops held to discuss housing market credibility with judiciary and legislators
- Strategic study on the future of FGTS completed

Component 3 – Housing Subsidies for the Poor

- The Government has prepared a program for the harmonization of subsidies, including federal budget and off-budget resources (including FGTS).
- Establishment of the subsidy monitoring and evaluation system

Component 4 – Land and Urban Development

- Preparation of toolkits for cadastre and registry development

3. Project components

The proposed TAL would channel Bank financial support to the four areas of programmatic support being incorporated under the concurrent DPL. The TAL would aim to support the overall policy reform agenda and, concretely, establish the necessary conditions under which the Bank could provide investment-linked support to the housing subsidy programs through a sector investment loan under the Sector Wide Approach (SWAp) beginning in 2006. The TAL would be designed to allow for a large amount of implementation flexibility to account for the likely evolution of the financial sector linked inimitably to Brazil’s macroeconomic conditions. Table 2 identifies the Project components and their associated costs.

Components	Indicative Costs (US\$M)	% of Total	Bank-financing (US\$M)	% Bank-financing
Component 1 – Institutional and Legal Framework Component	1.31	32%	1.31	100%
Component 2 – Housing Finance Market Development Component	0.29	6%	0.29	100%
Component 3 – Housing Subsidies for the Poor Component	1.33	48%	1.33	100%
Component 4 – Land and Urban Development Component	1.06	14%	1.06	100%
Subtotal	3.99	100%	3.99	100%
Front-end Fee²	0.01	0.25%	0.01	100%
Total	4.00		4.00	

² It is understood that, if the proposed Loan is not presented to the Bank’s Executive Directors for approval before June 30, 2006, the amount of the front-end fee, which is financed under the Loan and was calculated as 0.25% of the Loan amount, will revert back to an amount equal to 1% of the Loan amount. In this event, the Loan amount will have to be increased to reflect a capitalized front-end fee of 1%. However, if the Bank’s Executive Directors approve a front-end fee waiver that applies after July 1, 2006, the Loan amount will be reduced to reflect the amount of any such waiver.

The four components of the TAL are:

Component 1: Supporting the Institutional and Legal Framework for Housing Policy (US\$ 1.31 million). The TAL would include resources to support the Ministry of Cities in its internal reorganization, including the consolidation of the National Housing Secretariat as the key technical and policy entity for coordinating policy design across the many public sector actors. The component would finance technical assistance related to the establishment of the FNHIS and, critically, to implement a broad program of capacity building and training at the municipal and state level. Because municipalities will be taking on greater responsibilities in the context of the evolving legal framework, efforts are urgently needed to strengthen the ability of local governments to recover costs and manage the basic fiduciary and technical aspects of urban development.

Component 2: Housing Finance Market Development (US\$0.29 million). The TAL would include resources to support the improvement of the legal and regulatory framework for housing loans, including incremental reforms to the existing housing finance system, the future integration of the SBPE in the full market system, and overall strengthening of the market-based Housing Finance System (SFI). While the reform agenda is broad and complex, and the sector actors have initiated a number of studies and technical reviews, the Government has requested that the TAL activities be focused on (a) efforts to disseminate information about the importance of a credible regulatory and legal framework for housing finance among a broad audience which would include the judiciary and members of Congress; and (b) a strategic study, by independent consultants, of the medium-term future of FGTS. The TAL activities would complement other Government technical work on a number of issues, including: (a) the development of new legal and financial instruments for promoting greater primary and secondary market development; (b) the integration of SBPE in the full market system, and (c) efforts to support the drafting of housing-specific consumer protection legislation, including a short study tour to the United States and/or Western Europe where such efforts are also underway.

Component 3: Housing Subsidies for the Poor (US\$ 1.33 million). The focus of technical assistance activities as relates to housing subsidy policy would be the rationalization of the Government's various subsidy programs, and the establishment of effective targeting, monitoring, and evaluation mechanisms. Activities to be supported include (a) technical assistance for subsidy harmonization and regularization across the various subsidy programs (including Federal budget or OGU resources, off-budget financing, and FGTS programs); (b) the establishment of a tiered system of monitoring and evaluation, including regular monitoring of subsidy programs as regards targeting, impact, unit costs, the performance and compliance of financial intermediaries, and which would address both real-time needs and medium-term living standards impact; (c) demand-side technical assistance to local communities/local governments for structuring and packaging requests to the PSH; (d) a series of outreach and dissemination activities as regards national subsidy programs to improve understanding at the local level; and (e) technical assistance to improve the targeting of subsidies, including studies and analysis for the establishment of a system for poverty categorization that is more reliable than the current system of self-declaration and is consistent with Bank and Government experience.

Component 4: Land and Urban Development (US\$ 1.06 million). The component would include the provision of technical assistance for the carrying out of: (a) the programs of the Ministry of Cities to strengthen local governments in their efforts to achieve accreditation of their institutional capacity to take the lead in local urban development policy setting and implementation (*gestão própria*); and (b) the development of a national urban upgrading program, including, inter alia, (i) research, monitoring, and evaluation activities, at the Borrower's federal level, of policy and regulatory efforts for urban development and land subdivision; and (ii) a series of activities to facilitate the implementation of the

policy innovations under the Program for progressive housing development, the preparation of local master plans (*planos diretores*), and demand-side organization for housing subsidy programs.

Disbursement Category	% Bank Financing	US \$
Category 1 – Goods, Services, and Incremental Operating Expenses	100%	
	Total	\$ 3,990,000

A Front-End-Fee of US\$10,000 will be disbursed to the Bank upon effectiveness, in addition to the above disbursements

4. Lessons learned and reflected in the project design

The experience of the World Bank and other donors in housing and urban development, and in TA projects, generally, suggests a number of key lessons incorporated in program design of the TAL:

- First and foremost, the synthetic nature of the housing and urban sectors requires addressing reforms in a range of areas to be effective, including credit and household savings, subsidies, and the broad urban development agenda. At the same time, selectivity is important, and both the TAL and DPLs focus on what the Government and Bank team consider to be the most important issues in developing a robust housing system. For example, despite the complexities of urban land development issues in Brazil, the Government’s approach to focus on reducing the cost of formality for the poor and improving land subdivision, regularization, and infrastructure development is a critical area of reform with the necessary political support to take immediate action.
- Second, the decision by the Government to pair housing-related DPLs with targeted technical assistance reflects both the commitment of the Government to support the strengthening of the housing sector institutions – and particularly the Ministry of Cities National Secretariat for Housing – and the interest in maintaining Bank involvement through hands-on technical assistance.
- Third, housing subsidies function best in the form of grants made under a unified subsidy system that meets criteria for efficiency and equity, and the Government’s reforms in this area have made major strides in achieving this. When markets function, these grants best take the form of portable vouchers that households join with their own down payment and a market-rate loan to buy the home of their choice. When distortions disrupt markets – as is too often the case for low-income households, in general, and which in Brazil also affects many moderate-income households – reforms that facilitate supply (e.g. organizing households into groups for projects, making available serviced lots, and strengthening property rights) are just as important and a pre-requisite for the effective functioning of subsidy programs.
- Finally, in technical assistance operations, it is important to have flexibility in the allocation of funds. To this end, the TAL has been designed to offer the sector actors flexibility during implementation.

5 Alternatives considered and reasons for rejection

The team and Government considered two alternative design options:

- A significantly larger TAL which would include a broader program of capacity building activities at all three levels of the Brazilian public administration. Given the needs for capacity

strengthening and training at the municipal level, particularly, the team considered the inclusion of financing a large municipal strengthening program. This approach was rejected because of the Government's request to maintain the simplicity and focus of the operation. The Government requested that the TAL concentrate on creating the institutional capacity within the Federal Government, and in particular within SNH, to allow for the subsequent implementation of needed municipal capacity building.

- A multi-institutional implementation arrangement. The Government and team initially discussed a project management arrangement that would have placed the TAL directly under the Interministerial Housing Policy Group (*Grupo de Trabalho Interministerial de acompanhamento das Políticas de Financiamento e Subsídios à Habitação*) (GTI-SFH). The Government determined that, given the significant objective of the TAL to strengthen the capacity of the SNH, and in order to put in place a streamlined and efficient project management structure, the operation should be managed within the SNH with a well-defined oversight role for the GTI-SFH.

C. IMPLEMENTATION

1. Partnership arrangements (if applicable)

Not applicable.

2. Institutional and implementation arrangements

Borrower. A Loan of US\$ 4.0 million will be made to the Federative Republic of Brazil.

Project Implementation. The Project has been designed to be implemented based on the existing sector institutions and the evolving arrangements for policy management in the housing sector without creating parallel implementation institutions. The National Housing Secretariat within the Ministry of Cities will be the key implementation agent responsible for day-to-day TAL management in collaboration with the Government's Interministerial Housing Working Group (*Grupo de Trabalho Interministerial de acompanhamento das Políticas de Financiamento e Subsídios à Habitação*) (GTI-SFH). The GTI-SFH, created by Portaria Interministerial no. 404 of September 6, 2005 is comprised of representatives of the Ministry of Cities, Ministry of Finance, Central Bank and *Casa Civil da Presidência da República*. The National Housing Secretariat would prepare six-month implementation plans in collaboration with the GTI-SFH. Because of the importance of the finance sector institutions represented on the GTI-SFH in providing technical oversight and guidance for issues related to Component 2 and Component 3 of the Project, the GTI-SFH would review technical outputs for consultancies financed under those components. This is especially important given the links between the TAL and a number of technical reviews already underway and planned in the housing sectors by the National Treasury, Ministry of Finance, and Central Bank, in particular.

Procurement Arrangements. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. For each contract to be financed by the Loan/Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. Procurement activities will be carried out by the *Ministério das Cidades*. An

assessment of the capacity of the Implementing Agency to implement procurement actions for the project was carried out during preparation. The assessment reviewed the organizational structure for implementing the Project and the interaction between the Project's staff responsible for procurement. The overall project risk for procurement was determined to be average. Details of the procurement arrangements and assessment can be found in Annex 9.

Financial Management and Audit Arrangements. Financial management arrangements for federal projects in the country rely on the Government's *Sistema Integrado de Administração Financeira* (SIAFI) system. The system can adequately manage and track the receipt and use of funds in a highly transparent manner, with a low risk for Bank and country funds. A financial management assessment of the Housing Technical Assistance Loan was conducted during preparation. The assessment was carried out in accordance with OP/BP 10.02 and the Guidelines for Assessment of Financial Management Arrangements in World Bank Financed Projects issued by the Financial Management Sector Board on October 15, 2003. The financial management risk associated with the project has been assessed as low. Details of the financial management and audit arrangements as well as of the Financial Management Assessment can be found in Annex 8.

3. Monitoring and evaluation of outcomes/results

The program includes a significant component for monitoring and evaluation of the implementation and results of the Government's housing policies, and includes financing for baseline studies, the appropriate information systems, and long-term impact evaluation. Monitoring, evaluation, and targeting activities are focused on two levels – the implementation of the Government's federal housing policies and programs, and, of equal importance, the implementation of housing policies at the local level, including the areas of policy and implementation action which fall under the responsibilities of locally elected officials. Annex 7 includes a detailed description of the monitoring, evaluation, and targeting activities to be included under the TAL.

4. Critical risks and possible controversial aspects

The TAL itself is expected to have few significant risks. Nonetheless, the medium-term success of the initiatives financed by the TAL would be contingent on the overall impact of the Government's housing reform agenda.

Table 3: Critical Risks and Controversial Aspects	
Risk	Mitigation
Macroeconomic risks and vulnerability of the financial system to shocks	Macroeconomic shocks could have a profoundly negative impact on the financial sector. Nonetheless, this risk is deemed to be <u>low</u> ; in the current macroeconomic environment – particularly as regards fiscal discipline – the benefits of future declining interest rates and financial sector stability outweigh the downside risks.
Reforms at Federal level not accompanied by capacity building at the municipal level	The TAL instrument is designed to address these risks. Nonetheless, this risk is deemed to be <u>moderate</u> ; large municipalities in Brazil have highly trained officials and the central Government has embarked on an ambitious program to support capacity building at the local level in areas directly related to the proposed Program.
Coordination and institutional risks	This risk is deemed to be <u>moderate</u> ; coordination difficulties are inevitable but unlikely to significantly sidetrack the reforms now in motion. During preparation and implementation, significant care will need to be taken by the Ministries of Finance and Cities to bridge internal Government differences as well as reach out to non-state actors.

No controversial aspects, in addition to those indicated as risks, are foreseen.

5. Loan/credit conditions and covenants

There are no Loan conditions.

D. APPRAISAL SUMMARY

1. Economic and financial analyses

Not applicable.

2. Technical

The project supports efforts to improve the complex and inter-related system of housing finance and urban development in Brazil. It aims to channel technical assistance to complement the four key areas of Government policy which are being supported under the DPL that it accompanies. The technical literature, international and Bank experience demonstrate that improving the availability of affordable shelter for the poor and improving the strength and depth of the housing finance system for higher income families are inextricably linked. The TAL and DPL aim to address issues of credit and household savings, subsidies, land and urban development, and sectoral institutional strengthening in a comprehensive but focused manner.

3. Fiduciary

Financial management and procurement capacity assessments were undertaken during project preparation. The overall Financial Management Assessment conclusion is that the National Secretariat for Housing has satisfactory financial management arrangements in place to meet the Bank's minimum requirements. The financial management risk associated with the Project has been assessed as low. The project's financial management system is able to provide relevant and reliable financial information, in a timely manner, and to support project's management in the control, planning, implementation and monitoring of the project, towards the achievement of its objectives. The Procurement Capacity Assessment reviewed the organizational structure for implementing the project and the interaction between the project's staff responsible for procurement. An action plan was agreed upon and the overall project risk for procurement was assessed as average.

4. Social

The actions included in the accompanying DPL in the area of housing policy, subsidies, and finance are expected to have significant positive social impacts. A rapid environmental and social assessment of the main issues addressed in the program was commissioned and is summarized in Annex 14.

5. Environment

The DPL and TAL support a policy reform agenda and provide accompanying technical assistance which aim to improve the environmental health condition of Brazil's poor and middle-class. The program is expected to have significantly positive environmental impacts. Annex 14 summarizes the key environmental issues related to the program.

6. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[]	[X]
Natural Habitats (OP/BP 4.04)	[]	[X]
Pest Management (OP 4.09)	[]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[]	[X]
Involuntary Resettlement (OP/BP 4.12)	[]	[X]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[]	[X]
Forests (OP/BP 4.36)	[]	[X]
Safety of Dams (OP/BP 4.37)	[]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[]	[X]

7. Policy Exceptions and Readiness

The operation complies with all applicable Bank policies.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Annex 1: Country and Sector or Program Background

BRAZIL: Housing Sector Technical Assistance Project

Background and Key Sector Issues. Brazil is among the most urbanized countries in Latin America, with approximately 80% of the population living in urban areas and 90% of the country's GDP being generated in cities. Access to housing and reliable urban services is essential to poverty reduction and growth in Brazil. Housing is also an important component of the economy both on the consumption and investment sides; it contributes to job creation and creation of household wealth. Brazil's housing sector has, however, performed poorly in fulfilling its potential for either poverty alleviation or economic growth: the housing "deficit" is estimated at 7.1 million units mostly for households with incomes of less than 5 minimum wages (equivalent to 28 million people without access to adequate shelter); informal urban settlements are growing 4 times faster than average urban growth; and an estimated 50% of new households formed annually cannot afford the most basic house produced in the formal market even with deep finance subsidies.³ Moreover, the quantity of new houses constructed by the developer / construction industry, including by small builders, is extremely inadequate. It is estimated that only 250,000 units were constructed in 2003 by developers and small builders, compared to more than 1 million new households formed in urban areas per year (Diamond and Rottmann, 2004). Such low formal sector housing production makes it impossible to deal with the housing backlog and the problem of informal settlements.

Housing is a large economic sector with significant forward and backward linkages, making it an important instrument for anti-cyclical policies and sustained economic performance. Empirical data indicate the importance of the sector in the economy across countries. In terms of consumption, housing-related spending accounts for 20 to 50% of household expenditures (35% in Brazil). It forms 80-90% of household wealth, and approximately 45% of national wealth. In Brazil housing accounts for 6% of GDP (but this figure could be increased considerably) and 11% of annual capital formation (22% for the construction sector as a whole). In addition, residential construction, real estate services and the housing finance industry are important employment sectors in most countries. Brazil's housing sector employs about 5% of the labor force, while direct jobs for the construction sector represent 9.3% and 17.3% if indirect jobs are considered. Multiplier effects are high both in terms of labor and expenditure (between 1.4 and 1.81)⁴. Housing has a large weight in the price index – 29% in Brazil⁵. Housing finance is an important component of the financial sector and often drives innovations in the financial sector at large. In most developed countries, mortgage related assets represent more than half of total financial assets. In the USA and Japan, mortgage loans represent more than 50% of GDP; while in Brazil this figure is barely 5%.

Construction activity in Brazil has followed the vagaries of the public investment program. The economic stabilization effort has resulted in substantial decline in public works which in turn led to a decline in the sector GDP (-13% in 2003). Increase in formal sector residential construction would provide a good opportunity for a renewed boost in the sector. As an indication of the potential demand for housing, in 2004, 70% of all cement sales were for self-help construction. The construction industry is well aware of this potential demand in the lower income segment and is eager to collaborate with the public sector in the development of low-cost solutions. The institutional and regulatory inefficiencies in the land and finance markets have prevented the industry from realizing this growth potential in this lower-middle income market.

³ Fundacao Joao Pinheiro, Brazilian Housing Deficit (2004) and World Bank, Policy Note June 2002.

⁴ CBIC/FGV (2004), based on 2002 data on the construction sector.

⁵ According to IBGE's POF – *Pesquisa de Orçamentos Familiares*.

In February 2001, Brazil's Congress passed a constitutional amendment which guarantees the right to adequate housing for all Brazilians, making shelter an essential social service similar to education and health. Accomplishing this goal, while maintaining fiscal discipline, is a major challenge. Defining the role of the public sector in meeting the housing needs of Brazil's poor population includes comprehensive and sustained policy and regulatory reforms and the creation of incentives to mobilize financial sector resources and private sector savings. While the issue of housing and the attendant social, economic, environmental, and health issues was a priority in the electoral campaign of President Luiz Ignacio "Lula" da Silva elected in 2002, progress in housing outcomes has been slow in the last two years. This is in large part due to the fact that the new Government had to develop an institutional and policy framework for the sector from the ground up. Fiscal restrictions, self-imposed by the Government, further limited the ability to launch new housing investment programs.

There are several reasons for the poor housing sector performance. Brazil is a middle income country with modest population and urban growth. It has subsidized its housing sector deeply and over a long period of time. Yet, compared to countries with similar economic and demographic characteristics, housing conditions are worse than would be expected. General lagging economic performance over the last few decades and decreasing real incomes explain part of the housing sector's inadequate outcomes especially for the very poor. Furthermore, monetary policy and lingering high government real interest rates make housing finance a less attractive investment in general. The small size of the housing finance system (both private and public) attests to that; Brazil has an outstanding residential mortgage debt of about 3-4% of GDP and the real estate securities market has not developed beyond a pilot stage.

However, the inadequacy of the institutional frameworks and deficient finance and subsidy policy have had a major impact on the poor sector performance. On the institutional front, the formal housing system in Brazil has been a complex web of federal entities, state and local governments, private sector developers and financial institutions. Over the last fifteen years, responsibility for housing and urban issues has been shared by a number of ministries and secretariats, resulting in a weakened management of the sector and a lack of policy direction.

Legal and institutional bottlenecks in the housing finance sector have prevented the creation of a liquid and efficient formal housing market and constrained demand for housing. Brazil's housing finance markets are incomplete and do not serve large segments of the middle and low-income population because the transaction costs and risks to do so are too high. Housing finance has been dominated by government institutions dependent on directed credit and does not respond well to demand pressures. The absence of a well functioning mortgage market limits the production of middle income housing and the related downward filtering of existing housing to lower-income households. The existing sector institutions and financing mechanism will need to change to a more encompassing, sustainable and competitive systems.

Until recently, the bulk of housing subsidies in Brazil were provided through the government housing finance system to a broad spectrum of middle income households. Households earning incomes below the median, for whom neither the housing market nor the government mortgage system delivered, were largely excluded from federal subsidies, with the exception of limited upgrading subsidies. While 95 percent of the housing deficit is concentrated on poor people (earning less than 5 minimum wages) there were neither measures to *reduce the affordability gap nor to establish a consistent and broad program of subsidies for the poor*.⁶

⁶ Well-targeted subsidies are an important aspect of most housing markets in emerging economies as a large part of the low income strata cannot afford the cheapest house produced in the formal market and the private market is reluctant to enter the low income housing market because of smaller profit margins and high risks. Subsidies can in the short-term help bridge the wide affordability gap. In principle, this gap should narrow in the medium-term as cumbersome and thus costly urban planning and

The dominance of the existing directed credit and public housing finance systems is clear. Out of about 360,000 housing loans made in 2004, 75% were financed through the systems of FGTS, FAT and SBPE, using tax-based funding or tax-subsidies and using CEF as its main lender. State governments do often have their own funds to make housing loans for underserved groups, bringing the *proportion of loans made through public sector institutions closer to 80 percent*. While these systems have allowed housing lending to continue during periods of macro-economic volatility and high interest rates for housing loans, they are costly, are uneven in the depth of subsidies they provide and in their current coverage of segments of the “market”. They can not easily respond to increased demand for finance.

The lack of expansion of private housing finance as well as the lack of use of subsidized funds by private banks has several causes. These include Brazil’s history of macro-economic instability, the judicial protection of borrowers, and the dominance of special government funding and lending systems. *The most important reason, however, appears to be the high SELIC rate (set at 18.75% in February), the real domestic interest rate, which offers investors risk-free and liquid assets at attractive returns.* This rate results from the monetary policy adopted by the Government to stabilize the economy. While a stable macro economy is critical for the performance of the housing finance sector, the current high Selic rate puts a floor in the housing finance market. As long as the SELIC rate remains high relative to investments in more risky and administratively more costly housing finance loans, the development of the private mortgage market will remain limited. In addition, the high real interest rates make borrowing unaffordable for most households. Also, with current high real government rates and high lending risks in the housing finance sector, subsidized funding for housing finance is not attractive for lenders when compared to other risk-adjusted market investments.⁷

Further, restrictive land subdivisions, inefficient registry and complex permitting system all constrain the elasticity of urban land supply limiting the access of the poor to urbanized land, and increasing the costs of housing solutions.

The Long-term vision: The vision for the sector is a combination of a well-functioning housing market and targeted policy interventions to attend to market failures and address the affordability gap. In this scenario:

- (a) new households will be able to access formal shelter – either renting or purchasing it – according to their preferences and income level; low-income households who qualify for a loan with some help would be served with credit-linked subsidies to help them with down payment in complement to their own savings; for those who do not qualify for finance, non-credit linked subsidies would be provided by municipalities in the form of serviced land or partially built housing units⁸;
- (b) as interest rates come down, microeconomic policies improve credit risk and risk insurance and secondary real estate finance provide attractive long-term assets for investors the housing finance would likely grow rapidly (as it has in other countries) possibly reaching 10% of GDP in 5-7 years and 15% in another 5 years and will serve an increasing proportion of the upper- and middle-income market; as interest rates come down, the existing directed credit system (SBPE) would be deregulated over time and the capital market would expand to serve the middle and upper levels of demand;

development regulations are removed, land management systems are made more effective, and the structure and efficiency of the housing finance system improved.

⁷ These subsidized funds are moreover often limited (FGTS) or costly to accumulate (savings accounts of the tax exempted SBPE system).

⁸ These families would be able to contribute through self-help efforts or by taking out micro-finance loans to complete their “authorized” house.

- (c) FGTS would continue in the intermediate term to provide finance-linked subsidies (depending on the decision of its members and contributors). It will be able to leverage the participation of private lenders and other housing finance institutions into moderate income sector; in the medium term, when the Government can expand its subsidies through the PSH, FGTS will increase the return on its assets to provide members with a positive real return and decrease its role as the housing provider of last resort;
- (d) resources available for the federal housing policy would be used to leverage resources available at the state and local levels, probably in a 1:8 ratio, stimulating regulatory change to improve land supply for low-income housing and preventing further expansion of informal settlements and providing titles to slum dwellers with a minimum of administrative problems;
- (e) municipalities would gradually understand the negative impact of informality and would adopt well-designed plans, drawn jointly with local populations and aimed at pre-empting illegal occupations or squatting on non-serviced land plots. In such a scenario, risks are better measured and priced, and pension funds, insurance companies, and other long-term savers believe that the housing market is sufficiently secure and attractive to deserve part of their funds. While the market could increasingly take care of the newcomers, the public sector would have better chances to address the housing deficit in a sustained way. This will take more than one decade.

The Government has taken steps towards the implementation of the above vision and is committed to significant policy changes. With the gradual stabilization of the macro economy and increase in economic growth (GDP growth of approximately 5% is expected in 2005), the Government is focusing attention on the core areas of institutional and regulatory reforms in the land and finance sector that hinder the expansion of housing production and the investment in existing substandard housing. The *core areas of reform* include:

- ***Institutional Framework.*** In the context of the Government's decision to make housing a national priority, efforts are being made *to establish a coherent public sector structure* able to formulate national housing and urban policy and to coordinate the various agents and authorities at the federal, state and local levels. The creation of the Ministry of Cities (MOC) in 2002 with full responsibility for sector policy represented an important first step. Further efforts are needed to:
 - articulate the strategic direction for the housing sector;
 - establish a coherent federal program to improve access to housing finance and rationalize housing subsidies;
 - link federal housing policy and finances to other policy efforts at the local and state level; and
 - significantly strengthen the Ministry of Cities' capacity and policy relevance through a series of institutional reforms.
- ***Finance.*** While the financial system and markets are in large part driven by macroeconomic conditions and public sector debt-related interest rate dynamics, it is critical to pursue a short- and medium-term policy agenda to ensure that mortgage contracts are fulfilled, credit information is generally accessible, and new credit instruments are created for the financing of housing. The Government's policy agenda focuses on the strengthening of a capital-markets based housing finance system, and a gradual ***transitioning away from the current directed credit systems*** and segmented markets. Simultaneous efforts are needed to encourage more banks and non-bank financial institutions to participate in the housing finance market by:
 - improving the legal and regulatory framework which governs the formal housing finance market (both government and market-based segments);
 - establishing a liquid secondary market for tradable real-estate instruments;

- increasing access by lenders to existing special funds for housing finance and subsidy programs and allowing lenders to price their products according to competitive profit incentives; and
 - ensuring that related markets, such as construction and land markets, operate competitively and are not constrained by cumbersome procedures or inappropriate regulations.
- ***Housing subsidy policy to assist the poor while improving formal housing market output within the context of limited fiscal resources*** is the driving force behind the new government policy. A major challenge is to improve targeting and transparency of existing housing subsidies, adjusting subsidy instruments to medium and long-term macro-economic expectations, and to leverage investments by the financial system, sub-national governments and individual households.
 - ***Land Supply Rigidities.*** The obstacles to formal land development accessible to the urban poor are a key driver of the creation of slums (*favelas*) and the vicious cycle of marginalization of Brazil's urban poor. Inhabitants of informal / illegal settlements are often unable to access public services and have limited access to legal recourse. It has taken decades for Brazil to recognize that a policy environment which creates incentives for private sector housing development is a key pillar of both urban development and the overall poverty-reduction and growth agenda. *The key challenges for Brazil are to address both the stock and flow of informal developments through:*
 - a concerted effort to formalize existing slums and improve their access to basic public services by developing a national slum upgrading strategy and a program of financing for urban upgrading; and
 - reducing the regulatory complexity and excess, costs and time it takes to subdivide and develop new land, and register titles.

Housing Policy and Poverty. The Government has committed itself to the objective of reducing Brazil's rate of extreme poverty by 50% by the year 2015. The strategy to achieve this objective includes sustained economic growth based on financial stability, investments in the poor through better education, health and other social services as well as improved access to physical and financial capital, improved access and enhanced social protection including social assistance and conditional cash transfers linked to specific social targets. World Bank financed projects support several elements of this poverty reduction strategy. World Bank analysis shows that the government poverty reduction strategy can be achieved through a combination of 4.5% annual growth, continued increases in educational outcomes and human capital and further improvements in social policies. The proposed reforms would have a bearing on poverty reduction by: (a) increasing access of the poor to essential shelter services; (b) enhancing the capacity to accumulate and improve housing assets, by expanding access to housing credit and upfront subsidies for housing, Indirectly, access to improved shelter in poor communities has been demonstrated to lead to improved self-image, higher returns for children's education and increasing opportunities for better paid jobs.⁹

⁹ Access to adequate shelter or housing services can help predict subsequent improvement in both cash income of the family as well as its well-being measured by health indicators, education performance (including dropout rates) and probability of exiting extreme poverty (Geoffrey Payne, 2004). In addition to providing shelter, housing also plays a more standard role as an asset, as acquisition for the urban poor offers the opportunity for small incremental investments (World Bank, November 2004, Report No 30465, The Urban Poor in Latin America). The returns to housing as an asset include the flow of housing services it provides some of which can be monetized in case of need by taking in new tenants or extended household members who share in the upkeep of the household. In addition, homeownership provides a constant flow of services and frees the family from the constraint of having to generate a

The reforms supported by the housing sector-related DPLs would help increase the access to adequate housing in a number of ways, including (a) better targeted subsidies to the poor (formerly excluded from all the housing subsidize public lending); (b) improving the availability of mortgage credit to low income families – with the benefit of teaching the financial market how to work with this type of client and therefore contribute towards a less perceived risk; (c) expanding the policy making capacity of the government structures in terms of land policy; (d) regulations and other supply bottlenecks; and (e) contributing to a more liquid and seamless housing finance market attracting a wider base of resources for the low income segment.

House affordability is a major issue in Brazil, directly associated with poverty and low income levels. Brazilian poor, like all poor always find a way to protect themselves against the weather inclemency and to create a minimum of privacy. In fact, the annual production of housing units is estimated at 1.1 million, roughly keeping up with household formation.¹⁰ However, only 16% of these houses were authorized buildings. The others were built without being in compliance with the planning and building regulations, i.e., *favelas*, *invasões*, and improvised housing. Estimates of the current stock of unauthorized housing range from 32 % in Recife to 14 % in Rio de Janeiro; and 9.4 % in Sao Paulo, in a recent IPEA/DIRUR study¹¹. These units are deprived of minimum infrastructure, easy prey of violence and crime and often instruments of discrimination in the labor market. The main reason for such wide gap is low affordability. Household incomes are low relative to housing costs in the formal market. The lowest market produced house (approximately 35 to 40m²) in suburbs of metropolitan areas, sells for R\$29,000 to R\$31,000. Other new construction figures show prices as low as R\$22,400 for flats of 20m².¹² The median urban household income is estimated at R\$770 (December 2001)¹³. With current high mortgage interest rates of approximately 20 %, 60 to 70 % of urban households cannot afford to buy the lowest priced market-produced, unsubsidized house. These values are confirmed by analytical work carried out by the Bank.¹⁴ A conjugated approach would require both a boost in the purchasing power of the lowest deciles and measures to reduce the cost of housing units. These include improvement in the housing finance and the cost of formality – connected with land policies and zoning and regulations.

The Growth / Housing Relationship. The disappointing track record of the reforms of the 1990s has its roots in both slow capital accumulation and limited productivity growth. Not even in the 1980s was the contribution of capital accumulation to growth as low as it was in the 1990s. Gross annual capital formation decreased from 23.5 percent of GDP in the mid-seventies to less than 15 percent in the early nineties, bouncing back slightly to 17 percent in 2000. Emerging economies such as Chile and China as

fixed sum for rent every month. Given the large share of the poor employed in the informal markets, the poor will prefer to own their own shelter and avoid commitment to a fixed and regular payment as a housing rent. This can be important especially at time of crisis: in Uruguay, 10% of renters declared they had to move following the crisis in order to cut down on cash payments. Evidence from surveys on risk management in Chile and Peru finds that investment in housing acts as a substitute for formal retirement systems. Home ownership in LAC tends to be higher than in other parts of the world and some authors tend to believe that this is a way to cope with uncertainty and the negative consequences of financial crisis and macroeconomic disasters.

¹⁰ *Instituto Cidadania*, 2000. This observation is consistent with backlog figures for 2000 showing relatively less overcrowding.

¹¹ The mayor of Salvador estimates that 50% of households live in *favelas* or *invasões*. Differences need to be clarified.

¹² Including local IPTU and ITBI tax breaks.

¹³ We compared different household income data for all households, urban households and households in the six large cities, using minimum wage and consumption information. While there are differences, the data are not inconsistent.

¹⁴ Keeping the reform momentum. June 2002; Low Income Progressive Housing, December 2002.

well as OECD countries have sustained investment ratios much larger than Brazil during the last fifteen years.

Since 2003, the Government has established an agenda of microeconomic and institutional reforms to foster capital accumulation and productivity gains and thereby favor sustainable and equitable growth. Decline in investment levels in infrastructure have been large. Productivity performance has been relatively better but a poor “investment climate” is still a major obstacle to further productivity gains. The reforms were structured around four pillars: (a) reducing logistics costs to raise productivity and ease trade; (b) improving the business environment to enable better market functioning; (c) enhancing financial efficiency and depth; and (d) transforming knowledge into productivity through innovation. These were considered a sufficient and politically feasible set of reforms and still part of broader development strategy to promote sustainable and equitable growth.

The new housing strategy is a deepening of the government’s microeconomic agenda of reforms. Increased mortgage credit, effective property rights, and removing obstacles to commercial lending for housing are among the pillars of a sound housing strategy. These match the broader initiatives of supporting private sector development, improving the business environment, and increasing financial depth, which are ingredients of the government’s growth agenda. Better and streamlined regulation for land use are also an ingredient of the larger task of improving infrastructure regulation and simplifying business entry and operation, other elements of this agenda. And the emphasis on targeted subsidies and auctioning is part of a broader effort to increase the efficiency of social expenditure. The new housing policy will thus galvanize the government’s microeconomic agenda, reduce social distress and improve fiscal management

Housing Finance and the Finance Market Linkages. The link between housing and finance is evident. Housing is a long duration good (the average age in the USA is 70 years) which is amenable to be financed by long-term debt. In developed countries, housing financial instruments are used to deepen the capital markets as they provide long maturity papers backed by secured collaterals. In developing countries, and in Latin America in particular, the development of mortgage markets did not happen until the 1990s, a consequence of widespread financial instability, macroeconomic fluctuations, the lack of regulatory framework and very high interest risk. In the past, housing finance was provided in a directed and segmented way through the public sector, by special banks and funded by special resources (most often compulsory wage deduction, liquid tax free deposits) and oriented to specific consumers classes under fixed interest rate caps. The closed system was obviously inefficient as it stifled competition and did not allow for any expansion of the market or the attraction of universal banks. Macroeconomic instability and high price levels contributed to this situation. The idea of an open system, where universal banks and capital markets are encouraged to take part of the housing sector development (especially the low income where the needs are the highest) does not appear until the mid 1990s with some important legislation passed in several countries in Latin America.

In Brazil, the development of mortgage credit (moving away from special circuits), ensuring effective property rights, removing obstacles to commercial lending for housing, and mark up to capital markets is one of the fundamental pillars of World Bank housing policy advice¹⁵. Brazil has made impressive progress in terms of integration in the world economy, exchange and interest rates policies and macroeconomic stability. On financial infrastructure, the basic pillars are in place. The legal system is accountable, accounting systems are in place, financial institutions are subject to regulation and the payment systems are in place. The same is the case with most urban laws and policies. Generally there is clarity of ownership and property rights, urban planning is moderately sensitive to economic factors, land development is somewhat unpredictable, local and national taxation are stable and predictable. However,

¹⁵ Enabling Markets to Work, 1993

interest rates for housing are still regulated in line with the still existing direct and subsidized interest rate system; government continues to intervene in the financial system – notably in the housing direct credit and through implicitly subsidized interest rates while the government public debt continues crowding out of long-term capital markets (total). The strategy toward specialized financial institutions and services for housing, industry, SMEs and agriculture is gradually changing with the Government being increasingly open to have universal banks do housing mortgages to attract the largest volume of resources to the sector. While there is coordination of financial policy, regulation and supervision, the policy towards competition among financial institutions is slowly taking hold, promoting a gradual access to subsidized sources of funds and in theory defending the transition from market segmentation into seamless financial markets, supported by a legal framework that is coherent, simple, non-discriminatory, and pragmatic. The proposed program would steadily contribute for the deepening of the system and its expansion. At the moment, the non-regulated financial system represents about 4% of total housing finance. Private direct credit (funded by saving book accounts, SBPE) represents 25%; FGTS/CEF accounts for 54% of housing finance; the central government finances another 4%.

Core Reform Areas. The key issues which the Government has engaged in reforming the housing sector include:

- The need to rationalize sector institutions and strengthen their capacity to design, monitor, and implement housing and urban development policy. The formal housing system in Brazil is a complex web of federal entities, state and local governments, private sector developers and financial institutions. Over the last fifteen years, responsibility for housing and urban issues has been shared by a number of ministries and secretariats, resulting in a weakened management of the sector and a lack of policy direction. In the context of the Government's decision to transform the sector and make housing a national priority, efforts are needed to establish a coherent public sector structure able to formulate national housing and urban policy and to coordinate the various agents and authorities at the federal, state and local levels. While the creation of the Ministry of Cities (MOC) in 2002 with full responsibility for sector policy represents an important first step, efforts are needed to (a) articulate the strategic direction for the housing sector; (b) establish a national program for housing finance and housing subsidies while expanding distribution channels and the number of participating lenders ; (c) link federal housing policy and finances to other policy efforts at the local and state level; and (d) significantly strengthen the Ministry of Cities' capacity and policy relevance through a series of institutional reforms.
- The need to create a liquid and efficient formal housing market. The absence of an efficient market for formal housing credit has a negative impact on the middle and lower income households, both directly and indirectly. On the one hand, housing finance markets are incomplete and do not serve large segments of the middle and low income population because the costs and risks to do so are too high. On the other hand, the absence of a well functioning mortgage market for middle and higher-income households limits the production of middle income housing and the related downward filtering of existing housing to lower-income households. While the overall market situation is in large part driven by macroeconomic conditions and public sector debt-related interest rate dynamics, the short-and medium term policy agenda to improve access to finance and formal housing is critical to pursue. The Government's explicit policy agenda revolves around the establishment and strengthening of a capital-markets based system, a clear departure from a history of directed credit and a segmented market. Simultaneous efforts are needed to (a) provide access to housing finance to households which could afford monthly mortgage payments but who lack a stock of savings for the current high levels of down payment required; (b) encourage more banks and alternative lenders to participate in the housing finance market by increasing their access to existing funding and

subsidy programs and allowing them to price their products according to competitive profit incentives; (c) improve the legal and regulatory framework which governs the formal mortgage market and the establishment of a liquid secondary market for tradable mortgage-based instruments; and (d) ensure that related markets, such as construction and land markets, operate competitively and are not constrained by cumbersome procedures or inappropriate regulations.

- The absence of a consistent and broad program of subsidies for the poor. Well-targeted subsidies for the poor are an important aspect of most housing markets in emerging economies as a large part of the low income strata cannot afford the cheapest house produced in the formal market and the private market is reluctant to enter the low income housing market because of smaller profit margins and high risks. Subsidies can in the short-term help bridge the wide affordability gap. In principle, this gap could narrow in the medium-term as cumbersome and thus costly urban planning and development regulations are removed, land management systems are made more effective, and the structure and efficiency of the housing finance system improved, changes which would drive down prices and improve the affordability of housing solutions. The key challenge for the Government will be to establish a housing subsidy policy which is effective in reaching its objectives, efficient, well-targeted and transparent, and uses its limited fiscal resources to leverage investments by the financial system and individual households.
- The high costs – both financial and administrative – of land development, subdivision, and housing creation. The obstacles to formal land development accessible to the urban poor are a key driver of the creation of slums (*favelas*) and the vicious cycle of marginalization of Brazil's urban poor. Inhabitants of informal / illegal settlements are often unable to access public services, have limited access to legal recourse, etc. It has taken decades for Brazil to recognize that a policy environment which creates incentives for formal private sector housing development is a key pillar of both rational urban development and the overall poverty-reduction and growth agenda. The key challenges for Brazil are to address both the stock and flow of informal developments through (a) a concerted effort to formalize existing *favelas* and improve their access to basic public services by developing a national slum upgrading strategy and a program of financing for urban upgrading; and (b) reducing the regulatory complexity and excess, costs and time it takes to subdivide and develop new land, and register titles.

**Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
BRAZIL: Housing Sector Technical Assistance Project**

Sector Issue	Project	Latest Supervision (ISR) Ratings (Bank-financed projects only) ¹⁶	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
Urban Development	State of Ceara Urban Development/ Water Resources Management	S	S
Urban Development	State of Minas Gerais Municipal Development	S	S
Urban Development	State of Ceara Urban Development Water	S	S
Urban Development	Recife Urban Upgrading Project	S	S
Housing Sector	Mexico Affordable Housing and Urban Poverty Programmatic Sector Adjustment Loan Project	S	S
Housing Sector	Mexico Housing and Urban Technical Assistance Project	S	S
Housing Sector	Poland Housing Project	Closed	Closed
Housing Sector	Russian Federation Housing Project	Closed	Closed

¹⁶ HS: Highly Satisfactory; S: Satisfactory; U: Unsatisfactory; HU: Highly Unsatisfactory

Annex 3: Results Framework and Monitoring Indicators
BRAZIL: Housing Sector Technical Assistance Project

Results Framework

PDO	Outcome Indicators	Use of Outcome Information
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.	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	Overall sector management, including preparation of subsequent DPLs and SWAp
Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
Component One: Strengthen sector institutions and consolidate the National Housing Secretariat as the key technical policy entity in the housing sector.	Component One: 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	Component One: Feedback / input into the design of the draft law for National Housing Policy Redesign and finalization of the National Housing Plan
Strengthen the housing finance legal and regulatory framework.	Component Two: 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	Component Two: Design activities and, if necessary, new legal instruments, for strengthening the legal and regulatory framework, including credit market insurance.

<p>Component Three: Improve the harmonization, management, targeting, monitoring and evaluation of Government subsidy programs.</p>	<p>Component Three: The Government has prepared a program for the harmonization of subsidies, including OGU and off-budget resources (including FGTS).</p> <p>Workshops for dissemination of housing subsidy programs held.</p> <p>Preparation and dissemination of new PSH and other subsidy program training materials.</p> <p>Completion of studies on transforming PSH <i>parcelamento</i> into a block grant program, including the use of municipal contributions in bid evaluation.</p>	<p>Component Three: Regular and periodic refinement to the housing subsidy programs as relate to harmonization and targeting.</p> <p>Review of possible adjustments to the PSH <i>parcelamento</i> program.</p>
<p>Component Four: Improve urban development through the strengthening of the capacity of federal and local entities.</p>	<p>Component Four: Completion of a diagnosis of the compatibility of the environmental framework with the new land subdivision law.</p> <p>Preparation of toolkits for (a) cadastre and registry development; (b) risk management and definition of ZEIS areas; and (c) progressive infrastructure development and management.</p>	<p>Component Four: Redrafting / adjustments of the draft land subdivision law.</p>

Monitoring Indicators

Outcome Indicators	Baseline	Data Collection and Reporting Frequency and Reports			Data Collection Instruments	Responsibility for Data Collection
		YR1	YR2	YR3		
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	N/A	100% if applicable	100% if applicable	100% if applicable	Supervision missions	Bank staff, NHS, and GTI-SFH
	N/A	100% if applicable	100% if applicable	100% if applicable	Supervision missions	Bank staff, NHS, and GTI-SFH
Results Indicators for Each Component						
Component One :						
Disseminate the NHP and discuss its content with stakeholders	N/A	Ongoing	Ongoing	Completed	Supervision missions	Bank staff, NHS, and GTI-SFH
Preparation of a draft law for the National Housing Policy	N/A		Completed		Supervision missions	Bank staff, NHS, and GTI-SFH
Finalization of the National Housing Plan	N/A	Completed	Completed	Completed	Supervision missions	Bank staff, NHS, and GTI-SFH
Strengthening of the capacity of the SNH (staff hired, systems in place)	N/A		Under design	Completed	Supervision missions	Bank staff, NHS, and GTI-SFH
Preparation of the comprehensive regulations for operation of the FNHIS	N/A					
Component Two :						
Workshops held to discuss housing market credibility with judiciary and legislators	N/A			1	Supervision missions	Bank staff, NHS, and GTI-SFH
Strategic study on the future of FGTS completed	N/A		Completed	Completed	Supervision missions	Bank staff, NHS, and GTI-SFH
Component Three:						

Monitoring Indicators

The Government has prepared a program for the harmonization of subsidies, including OGU and off-budget resources (including FGTS).	N/A		Completed	Completed	ISRs	Supervision missions	Bank staff, NHS, and GTI-SFH
Establishment of the subsidy monitoring and evaluation system	N/A	Indicators established, System designed and baseline studies underway	Baseline studies completed, data collection underway	Completed	ISRs	Supervision missions	Bank staff, NHS, and GTI-SFH
Completion of studies on transforming PSH <i>parcelamento</i> into a block grant program, including the use of municipal contributions in bid evaluation.	N/A			Completed	ISRs	Supervision missions	Bank staff, NHS, and GTI-SFH
Component Four: Preparation of toolkits and/or studies and other technical activities for urban land management and administration and the design of a policy framework for a National Urban Upgrading Program.	N/A	Underway	Underway	Completed	ISRs	Supervision missions	Bank staff, NHS, and GTI-SFH

Annex 4: Detailed Project Description

BRAZIL: Housing Sector Technical Assistance Project

1. Project Components and Financing Arrangements

The operation has been designed with four components linked to the four programmatic areas of policy reform being undertaken by the Government. Consistent with the country financing parameters, the operation would finance 100% of eligible expenditures for the four components of technical assistance. The Ministry of Cities' National Housing Secretariat would act as the key implementing agency, responsible for day-to-day management (including procurement) of the TAL. The Interministerial Housing Policy Group (GTI-SFH), which includes representatives of the Central Bank, Ministry of Finance, *Casa Civil da Presidência da República*, and Ministry of Cities, would play an important role as the project steering committee, reviewing a six-month Project implementation plan and signing off on all terms of reference and technical deliverables for Components 2 and 3.

2. Detailed Description of Project components

The Project is structured with four components:

Component 1: Supporting the Institutional and Legal Framework for Housing Policy (US\$ 1.31 million). The TAL would include resources to support the Ministry of Cities in its internal reorganization, including the consolidation of the National Housing Secretariat as the key technical and policy entity for managing coordinate policy design across the many public sector actors. The component would finance technical assistance related to the establishment of the FNHIS and, critically, to implement a broad program of capacity building and training at the municipal and state level. Because municipalities will be taking on greater responsibilities in the context of the evolving legal framework, efforts are urgently needed to strengthen the ability of local governments to recover costs and manage the basic fiduciary and technical aspects of urban development. The specific activities included under Component 1 include:

- Dissemination of the National Housing Policy. The operation would finance technical assistance to support the public dissemination of the National Housing Policy (NHP) and its instruments, and the strengthening of the managerial, technical and operational capacities within SNH. Specifically, the component would finance (a) activities to broadly disseminate the NHP and discuss its content with stakeholders; and (b) technical assistance for converting the NHP into a draft law, expected to be submitted to Congress in 2005.
- Strengthening of the National Housing Secretariat and Technical assistance to support the preparation and dissemination of the National Housing Plan. The National Housing Plan is the technical counterweight to the National Housing Policy which outlines the specific activities, targets, actions, activities, and policy tools which would be used to implement the National Housing Policy. The operation would finance (a) local and international technical assistance to support the drafting of the National Housing Plan; (b) consultant services to support the strengthening of in-house capacity for policy formulation as regards the housing sector, including experienced national and international technical specialists; (c) training activities, including in-country training and international training for SNH staff; (d) a small amount of office equipment, namely computers and software,

to facilitate the work of SNH staff and consultants; and (e) incremental operating expenses, including office expenses and domestic travel

- Technical assistance to support the operationalization of the National Housing Fund. The National Housing Fund, which was established by law in 2004, represents the juridical instrument for the implementation of a rationalized system of federal housing subsidies across income groups and geographical areas. In the short-term, as the Government prepares to channel federal budget (OGU) resources through the Fund, efforts are needed by the Ministry of Cities to establish the operational procedures for the functioning of the Fund, including managerial responsibility and oversight, access criteria, the nature and composition of OGU budget items and programs included under the Fund, reporting requirements and procedures, and the roles and responsibilities of decentralized and local actors, including financial agents and promoters, in the use of Fund resources. The Project would finance a contract with a consulting firm to support the Ministry in preparing a comprehensive operational manual for the Fund.

Component 2: Housing Finance Market Development (US\$ 0.29 million). The TAL would include resources to support the improvement of the legal and regulatory framework for housing loans, including incremental reforms to the existing housing finance system, the future integration of the SBPE in the full market system, and overall strengthening of the market-based SFI. While the reform agenda is broad and complex, and the sector actors have initiated a number of studies and technical reviews, the Government has requested that the TAL activities be highly focused on (a) efforts to disseminate information about the importance of a credible regulatory and legal framework for housing finance among a broad audience which would include the judiciary and members of Congress; and (b) a strategic study, by independent consultants, of the medium-term future of FGTS. The TAL activities would complement other Government technical work on a number of issues, including: (a) the development of new legal and financial instruments for promoting greater primary and secondary market development; (b) the transition and future integration of SBPE in the full market system, and (c) efforts to support the drafting of housing-specific consumer protection legislation, including a short study tour to the United States and/or Western Europe where such efforts are also underway. The core activities to be financed under the Component include:

- Outreach and information dissemination for Judiciary, NGO and Congressional committee members. The persistent unpredictability of the legal and regulatory system as regards the rights of lenders and borrowers remains an important impediment to the credibility of the housing finance system. The Project would finance a series of workshops to disseminate information among academics, NGO representatives, members of the judiciary, and Congressional committee members and their technical staffs.
- A study and assessment of alternative lenders. The purpose of the study is to assess the potential of alternative lenders, such as microfinance institutions to provide financial products to low-income families, such as housing improvement loans, that would be an alternative to traditional mortgage financing, potentially filling an important affordability gap that exists in the current housing finance system.
- A strategic study for FGTS. The Project would include financing to prepare an independent assessment and strategic vision of the structure, efficiency, and coherence of FGTS' role and activities. The strategic assessment of FGTS would include, *inter alia*: (a) a review of options for improving access to a broad spectrum of domestic lenders,

including options for adjusted interest rate pricing according to income and credit risk; and (b) options for supporting the transition of the FGTS imbedded-interest rate subsidy into a less-distorting, more explicit and transparent upfront subsidy. The strategic study would likely be undertaken by a multi-sectoral consulting firm with experience in finance, law, and public sector management.

Component 3: Housing Subsidies for the Poor (US\$ 1.33 million). The focus of technical assistance activities as relates to housing subsidy policy would be the rationalization of the Government's various subsidy programs and the establishment of effective targeting, monitoring, and evaluation mechanisms. Activities to be supported include (a) technical assistance for subsidy harmonization and regularization across the various subsidy programs (including OGU, off-budget, and FGTS programs); (b) the establishment of a tiered system of monitoring and evaluation, including regular monitoring of subsidy programs as regards targeting, impact, unit costs, the performance and compliance of financial intermediaries, and which would address both real-time needs and medium-term living standards impact; (c) demand-side technical assistance to local communities/local governments for structuring and packaging requests to the PSH; (d) a series of outreach and dissemination activities as regard national subsidy programs to improve understanding at the local level; and (e) technical assistance to improve the targeting of subsidies, including studies and analysis for the establishment of a system for poverty categorization that is more reliable than the current system of self-declaration and is consistent with Bank and Government experience. The activities under Component 3 include:

- Support for Subsidy Harmonization and Rationalization. The most critical action in the immediate term for the Government is to rationalize the Government's myriad subsidy programs across income groups, establishing consistent criteria for subsidy access and consistent subsidy terms (financial and administrative) that create a harmonized spectrum of both credit-linked and non-credit linked subsidies. The TAL would include financing for consultants to support the Ministry of Cities and the GTI-SFH to review the existing subsidy programs, including PSH, PAR, and the FGTS subsidies (both upfront and interest rate) and fine-tune them consistent with the overall monitoring and evaluation approach.
- The establishment of a comprehensive monitoring and evaluation system. The program would finance a tiered system for targeting, monitoring and evaluation of the Government's housing programs and which would aim to provide policy makers with information about municipal land and housing markets. Annex 7 includes a detailed description of the M&E approach.
- Dissemination activities of national subsidy programs to improve understanding of federal subsidy schemes at the local level. There is significant demand from local governments to understand the Government subsidy programs, specifically the new PSH. The Project would finance (a) a program of regional workshops to broadly disseminate PSH and other program information to both state and local officials; and (b) the improvement of existing training materials which would be distributed to local governments and financial institutions.

Component 4: Land and Urban Development (US\$ 1.06 million). Provision of technical assistance for the carrying out of: (a) the programs of the Ministry of Cities to strengthen local governments in their efforts to achieve accreditation of their institutional capacity to take the lead in local urban development policy setting and implementation (*gestão própria*); and (b) the

development of a national urban upgrading program, including, inter alia, (i) research, monitoring, and evaluation activities, at the Borrower's federal level, of policy and regulatory efforts for urban development and land subdivision; and (ii) a series of activities to facilitate the implementation of the policy innovations under the Program for progressive housing development, the preparation of local master plans (*planos diretores*), and demand-side organization for housing subsidy programs. In particular, the TAL would support:

- Workshops, studies, case studies, and data collection related to urban land markets. Activities would include technical activities related to the analysis of the regulatory and institutional supply constraints as inputs for the preparation of the pillar of the National Housing plan related to increasing urban land supply and reducing supply-side constraints on formal housing development. Specific studies would include analysis and data collection in regards to licensing, processing, registration, infrastructure requirements, and the establishment of minimum lot sizes and other standards at the local level. Such activities would culminate in the creation of a simple municipal land and housing benchmarking system, included as part of the overall M&E program.
- Activities for the development of local governments' capacity for improving permitting and registration processes. Based on the results of the land market analytical work, the Ministry would prepare and widely disseminate information related to best practices and options for improving the often onerous permitting and registration procedures in municipalities in Brazil, which are among the most important impediments to greater development of urban land.
- Technical assistance to strengthen sub-national planning and housing entities. The TAL is limited in scope and reach, but a series of actions will be taken at the Federal level to create an environment and the appropriate instruments for building capacity by local agents, including municipalities, to implement sector efforts. In addition to subsidy-policy specific efforts for local governments and actors financed under Component 3, the TAL would finance: (a) technical assistance, including a series of two workshops, also involving state-level officials, aimed at the elaboration of cadastre systems, payment collection procedures and staff training, including methodologies for systematizing local cadastres and facilitating their integration with state and federal databases; (b) a series of activities for municipalities to build capacity in identifying and mapping existing informal and precarious settlements as well as serviceable land in locations for low-income development, in order to define ZEIS perimeters in an equitable and proactive way; and (c) the preparation of information for low-cost progressive infrastructure for new land subdivision.
- Development of a National Urban Upgrading program. A number of programs exist at the Federal level aimed at the upgrading of existing informal settlements. Rationalizing these programs into a single program with consistent rules, adequate targeting and monitoring and evaluation, is a key challenge for the medium term. The TAL would finance a number of activities to evaluate the efficacy of these existing programs, providing a basis for developing a national urban upgrading program that cuts across all secretariats within the Ministry of Cities and that could be supported through the newly established National Housing and Social Interest Fund.

Annex 5: Project Costs
BRAZIL: Housing Sector Technical Assistance Project

Project Cost By Component and/or Activity	Total US \$million	Bank Financing
Category 1 – Goods, Services, and Incremental Operating Expenses	3.99	3.99
Total Project Costs	\$ 3.99	\$ 3.99
Front-end Fee	\$ 0.01	\$ 0.01
Total Financing Required	\$ 4.00	\$ 4.00

Component 1: Institutional Strengthening and Support of the National Housing Policy	Cost incl. Contingencies (US\$)	Bank Financing (US\$)		
		2006	2007	2008
1. Selection of Consultants to provide technical assistance to the Ministry of Cities in support of the National Housing Plan and Policy	576,000	192,000	192,000	192,000
2. Design of a communications plan for the dissemination of the National Housing Plan	15,000	15,000	-	-
3. Internet Dissemination	30,000	15,000	15,000	-
4. Electronic Tool Kits	100,000	100,000	-	-
5. Technical Training for Housing Secretariat and Urban Development Secretariat	40,000	20,000	20,000	-
6. Development of a Program to Review and Disseminate Good Practice in the area of Social Housing	30,000	30,000	-	-
7. Development a Local Practitioner's Manual for Urban Upgrading	70,000	52,500	17,500	-
8. Consultant to assist in management of loan fiduciary responsibilities - financial management specialist	75,000	25,000	25,000	25,000
9. Consultant to assist in management of loan fiduciary responsibilities - procurement specialist	75,000	25,000	25,000	25,000
10. Study and technical travels for the Ministry of the Cities	50,000	30,000	20,000	-
11. Travel and study tours for members of the interministerial working group	50,000	30,000	20,000	-
12. Paper Publications	70,000	35,000	35,000	-
13. Acquisition of Hardware and Software sufficient to monitor the National Housing Plan	100,000	100,000	-	-
14. Financial Audits	21,000	6,930	6,930	7,140
Total	1,302,000	676,430	376,430	249,140

Component 2: Improving the Stability and Scale of the Housing Finance Market	Cost incl. Contingencies (US\$)	Bank Financing (US\$)		
		2006	2007	2008
1. Workshops for members of the judiciary, NGOs, and Congress	50,000	25,000	25,000	-
2. A strategic study of FGTS	100,000	100,000	-	-
3. Studies to review of the regulatory framework of alternative lenders	20,000	20,000	-	-
4. Diagnostic study of alternative lenders	20,000	20,000	-	-
5. Diagnostic studies of SBPE	100,000	100,000	-	-
Total	290,000	265,000	25,000	-

Component 3: Improving and Harmonizing National Housing Subsidy Policy and Programs	Cost incl. Contingencies (US\$)	Bank Financing (US\$)		
		2006	2007	2008
1. Comprehensive subsidy harmonization and rationalization studies	100,000	100,000	-	-
2. Development and establishment of a Monitoring and Evaluation system	1,128,000	372,240	372,240	383,520
3. Studies related to the PSH <i>parcelamento</i> program	20,000	20,000	-	-
4. Evaluative studies on the effectiveness of the PSH and PAR	80,000	80,000	-	-
Total	1,328,000	572,240	372,240	383,520

Component 4: Improving the Legal Framework for Lowering Urban Land Costs	Cost incl. Contingencies (US\$)	Bank Financing (US\$)		
		2006	2007	2008
1. Development of Toolkits for (i) good practice on improving development approval processes at the local level; (ii) streamlining and making accessible the registration process	100,000	100,000	-	-
2. Development of Toolkits for local officials on good practice in cadastre management	100,000	100,000	-	-
3. Development of a National Urban Upgrading Program for Metropolitan Areas	870,000	400,000	300,000	160,000
Total	1,070,000	600,000	300,000	160,000

Annex 6: Implementation Arrangements

BRAZIL: Housing Sector Technical Assistance Project

Borrower and Executing Agencies

Borrower. A Loan of US\$ 4.0 million will be made to the Federative Republic of Brazil. A front-end fee of 1% – less any applicable waiver – would be assessed.

Project Implementation. The Project has been designed to be implemented based on the existing sector institutions and the evolving arrangements for policy management in the housing sector without creating parallel implementation institutions. The National Housing Secretariat within the Ministry of Cities will be the key implementation agent responsible for day-to-day TAL management in coordination with the Government's Interministerial Housing Policy Group (*Grupo de Trabalho Interministerial de acompanhamento das Políticas de Financiamento e Subsídios à Habitação*) (GTI-SFH). The GTI-SFH is comprised of representatives of the Central Bank, Ministry of Finance, *Casa Civil da Presidência da República* and Ministry of Cities. The National Housing Secretariat would prepare six-month implementation plans in collaboration with GTI-SFH. Because of the importance of the finance sector institutions represented on the GTI-SFH in providing technical oversight and guidance for issues related to Component 2 and Component 3 of the Project, the GTI-SFH would review technical outputs for consultancies financed under those components. This is especially important given the links between the TAL and a number technical reviews already underway and planned in the housing sectors by the National Treasury, Ministry of Finance, and Central Bank, in particular.

The key responsibilities of the Project implementation team within the National Housing Secretariat would include:

- Preparation of the Project's 6-month work plan;
- Management of Project procurement activities, including preparation of terms of reference in collaboration with the GTI-SFH for terms of reference related to Components 2 and 3 of the Project;
- Project financial management activities, including account management and the preparation of Project financial reports;
- Supervision and maintenance of the Project's administrative records;
- Preparation of regular Project implementation information to the World Bank, and coordination with the World Bank as regards supervision missions;
- Contracting and provision of information to external auditors; and
- Other ad hoc management and coordination activities, including the preparation of workshops and/or training activities.

Procurement. For the purchase of goods or services financed wholly or partly by Bank funds, the implementation agencies will adhere to the Bank procurement guidelines. Goods will be procured in accordance with the Bank's "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004. Consulting services, either wholly or partly financed by IBRD, will be procured in accordance with the Bank's "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004.

Monitoring and Evaluation Arrangements

M&E System. The Project would finance a comprehensive monitoring and evaluation program related to (a) the health of the housing finance sector, including the impact of Government actions on housing credit availability and cost; (b) the implementation of the Government's housing subsidy programs, their targeting, efficiency, and impact; and (c) municipal-level actions related to the availability of housing and land. Details of the monitoring and evaluation approach are included in Annex 7 and the overall Project monitoring indicators are included in Annex 3.

Project Supervision. Supervision missions will be undertaken at least three times a year and Implementation Status Reports (ISRs) will be updated after each mission. Project supervision will be front-loaded and focus initially on ensuring the preparation of terms of reference for key studies and consultants. In addition to regular supervision, the Bank will periodically review the progress of the operation in conjunction with sector reforms under the DPLs. The Ministry of Cities, in conjunction with the GTI-SFH, will submit quarterly progress reports during project implementation, including financial monitoring. A mid term review will be carried out in August 2006.

Annex 7: The Monitoring and Evaluation of the National Housing Policy

BRAZIL: Housing Sector Technical Assistance Project

Objectives of the Component. This component seeks to support the National Housing Policy of Brazil (*Política Nacional de Habitação*, or PNH) in designing and implementing a results-based monitoring and evaluations system aimed at: (i) *assessing housing needs* at the intra municipal level to facilitate the identification of the target population in each municipality, (ii) *monitoring implementation and service delivery of PNH's various programs*, for quality control, accountability and legitimacy purposes, and (iii) *assessing program effectiveness and efficiency* via impact assessment and cost effectiveness studies.

The Monitoring and Evaluation System of Brazil's National Housing Policy. The monitoring and evaluation system proposed includes four main activities: (a) Intra-Municipal Level Housing Needs Mapping to improve the targeting of PNH's programs at the municipal level; (b) a Management Information System to improve effectiveness of program delivery; (c) Processes Monitoring and Quality Control to ensure accountability and legitimacy; and (d) Impact Assessment and Cost Effectiveness studies.

Intra-Municipal Level Housing Needs Mapping

The objective of this subcomponent is to provide a tool to municipal authorities to identify areas within municipalities that are priority for the implementation of PNH's programs (PSH, etc.). The proposal is to combine census and national household surveys to estimate housing deficits at the census segment level. This would serve two purposes: First, it will help municipal governments in prioritizing the implementation of PNH's programs by targeting geographic areas in which poor eligible beneficiaries currently reside. Second, by comparing the housing needs map to the map of the incidence of the PNH programs, the federal government will be able to monitor the targeting performance of these locally implemented PNH programs. That is, inconsistencies found between the housing needs map and the actual programs' incidence map will alert the federal government to inadequate targeting of the intended beneficiary population by municipal governments.

Specific activities for this subcomponent include: (i) hiring of consultants to elaborate the housing needs map; (ii) workshop and publications to disseminate results of the housing needs map; and (iii) hiring of consultants to develop a web page to make maps available.

Management Information System

The objective of this subcomponent is to assist the Ministries responsible for the PNH programs in developing a management information system (MIS) to gather and process real time information that is crucial for program management and implementation supervision. Once in place, the system will be able to instantaneously supply information about various implementation indicators to the program management teams and policy makers alike. The MIS will be designed to ensure proper resource use, to facilitate quality control, and to ensure public accountability. It entails the systematic documentation of key aspects of program performance that are indicative of whether the program is functioning as intended or according to some appropriate standard. Thus, the MIS will be designed to answer questions, for example:

- How many individuals (or families) are directly benefiting from the program?
- Total number of families that have applied to the program to date?

- Total number of beneficiaries receiving program benefits?
- Amounts transferred per month and per municipality?
- Average time elapsed between beneficiary application and selection into the program?
- Average time elapsed between beneficiary selection into the program and receipt of benefit?
- Socio-economic profile of beneficiary households?

The MIS developed under this subcomponent will gather and process information held by municipal governments and the financial agencies implementing the various programs under the PNH. Regular newsletters and reports with detailed information on program delivery information will be prepared and sent to key policy makers at federal, state and municipal levels. A web site will also be developed to provide real time information on program delivery and outreach status.

This subcomponent would support the following activities for the setting up of PNH's MIS: (a) the design, training of staff and implementation of the MIS system; (b) MIS software and hardware equipment; (c) system maintenance and updating; (d) operational costs for the first 2 and ½ years of the program; (e) training and dissemination workshops for MIS users (including federal, state and municipal government staff and policy makers).

Processes Monitoring and Quality Control

This subcomponent seeks to strengthen PNH's efficacy by supporting its programs in the area of quality control audits and the monitoring of downstream processes to ensure accountability, legitimacy and transparency of program execution by establishing effective incentive mechanisms for decentralized implementation. Therefore, this subcomponent will support the design and execution of random audits at the municipal level to check whether beneficiary selection procedures follow program guidelines, and if beneficiaries are receiving adequate services. A random sample of municipalities will be drawn each year. From each municipality, a further random sample of beneficiary families will be selected to verify the validity of their reported eligibility, and the quality of the services delivered. The following questions will be addressed:

- Are those benefited the intended target?
- Are members of the targeted population aware of the program, and of program rules?
- Are necessary program functions being performed adequately?
- Are beneficiaries receiving the proper amounts, type and quality of service?
- Are there eligible targets that are not receiving services?
- Are program resources used effectively and efficiently?
- Are costs per service unit delivered reasonable?
- Are municipal projects in compliance with requirements imposed by the PNH?
- Are participants satisfied with the services they receive?

Specific activities for this subcomponent include: (i) hiring of consultants to design survey instruments, sampling strategy, and to implement periodic field surveys in municipalities randomly selected each year; (ii) workshop and publications to disseminate results of the quality control survey; and (iii) hiring of consultants to develop program re-design strategies to address implementation issues identified by the quality control survey.

Impact Assessment and Cost Effectiveness studies

An assessment of program effectiveness and efficiency will be conducted to examine the degree to which the desired outcomes are generated by the program, and if such outcomes are produced with the lowest possible costs. Impact assessments cannot be made with certainty but only with varying degrees of plausibility. Typically, evaluation studies assess the effects of social programs by comparing information about the outcomes for participants and non-participants. The main objective of an impact assessment is to produce estimates of the net effects of an intervention, that is the impact uncontaminated by the influence of other processes and events that also may affect outcome indicators.

The main objective of an efficiency assessment is to provide a framework to compare program costs to outcomes. There are usually two types of efficiency analysis: (i) cost-benefit analysis, and (ii) cost-effectiveness analysis. Cost-benefit analysis requires that program costs and outcomes be known and valued by a common measurement unit (usually monetary units). When outcomes cannot be converted to monetary units, cost-effectiveness analysis permits interventions with similar goals to be compared in terms of their relative efficiency. To be feasible, cost-effectiveness analysis requires that several programs (or interventions) are evaluated for impact. While most administrative costs are captured by the monitoring systems of the programs themselves, some non-administrative costs (private or community costs) need to be assessed through primary data collections.

This sub-component will support PNH's monitoring of outcomes and assessment of program impacts. At a more aggregate level, the project will support monitoring and impact evaluation of economic and social indicators, as well as social capital indicators and indicators to measure municipal level supply of public services that might constrain program effectiveness. The monitoring and evaluation of outcomes at the municipal level will utilize existing and newly collected data at the municipal level. Existing data sources include the national population census, and sample data from large national surveys (e.g., PNAD, POF, PNDS, etc.). The latter will be used to estimate key municipal indicators through out of sample imputation methods. The use of imputation methods will allow for the spatial analysis of poverty and inequality outcomes at the municipal level before and after program implementation.

At the household level, this subcomponent will support baseline data collection from a sample of program participants as well as non-participant households. Program participants included in the sample will be interviewed right after being selected for any of the PNH programs. This will ensure that sample beneficiary households will be more likely to provide valid information when answering the baseline survey, since the probability of their receiving the program will not be affected by their answers to the survey. Comparable non-participant households will also be interviewed.

The data gathered during this exercise will provide baseline information for the relevant impact indicators. This subcomponent will also support follow up surveys. If possible, the sample of non-participant households should be selected from the pool of applicant households that were registered, but that were not selected into the program because they did not meet the eligibility criteria. Surveying these excluded households will allow for two valuable types of analysis: (i) an assessment of the efficacy of the beneficiary selection process, by verifying if excluded households are in fact less deprived than beneficiaries, and (ii) an assessment of the impact of the program on household level socio-economic indicators via the method of regression discontinuity design (see Hahn, Todd and Van der Klaauw, 2001).

Specific activities for this subcomponent include: (i) organization of a Log-Frame workshop to identify program outcome indicators to be monitored and for which impact will be estimated, (ii) hiring of consultants to develop the monitoring and impact assessment methodologies, including the design of survey instruments and sampling strategy, and (iii) workshop and publications to disseminate results of the impact assessment and monitoring studies.

Annex 8: Financial Management and Disbursement Arrangements

BRAZIL: Housing Sector Technical Assistance Project

Financial Management and Disbursements

1. Introduction. The objective of the proposed technical assistance operation is to assist in the implementation, monitoring and evaluation of the Government reform program supported by the housing sector reforms under the Programmatic Development Policy Loan. The project will be implemented by the National Secretariat for Housing, which is part of the Ministry of Cities, through its *Unidade de Gerenciamento de Projetos (UGP)*, an entity already experienced in the implementation of multilateral development agencies operations.
2. Financial Management Assessment Conclusion. A financial management assessment of the Housing Technical Assistance Loan was conducted on March 15 and 16, 2005. The assessment was carried out in accordance with OP/BP 10.02 and the Guidelines for Assessment of Financial Management Arrangements in World Bank Financed Projects issued by the Financial Management Sector Board on October 15, 2003.
3. The overall objective of the assessment was to determine whether the Borrower has, or will have, acceptable financial management arrangements in place by loan effectiveness. These include, but are not limited to, capacity to (a) properly manage and account for all program's proceeds, expenditures and transactions; (b) produce timely, accurate, and reliable program financial statements and reports, including Financial Monitoring Reports (FMRs), for general and Bank special purposes; (c) safeguard program's assets; (d) timely engage independent auditors acceptable to the Bank; and (e) disburse Bank funds in accordance to applicable Bank rules and procedures.
4. The assessment was carried out jointly with the National Secretariat for Housing's UGP staff members involved in the implementation of the program. It included (a) discussions with the UGP's financial management staff and STN officials; (b) a review of evaluation of financial management systems in place and/or those to be used for the program's monitoring, accounting, and reporting; (c) review of staffing requirements, including training and qualifications; (d) discussion of flow of funds arrangements and disbursement methodology; (e) review of internal control mechanisms in place; (f) discussion with regard to reporting requirements, including the format and content of FMRs; and (g) review of external audit arrangements.
5. Financial management arrangements for federal projects in the country rely on the Government's *Sistema Integrado de Administração Financeira (SIAFI)*. The system can adequately manage and track the receipt and use of funds, in a highly transparent manner, with a low risk for Bank and country funds.
6. The overall Financial Management Assessment conclusion is that the National Secretariat for Housing, namely its UGP, has satisfactory financial management arrangements in place to meet the Bank's minimum requirements. The financial management risk associated with the Project has been assessed as low. The Project's financial management system is able to provide relevant and reliable financial information, in a timely manner, and to support the project's management in the control, planning, implementation and monitoring of the project, towards the achievement of its objectives.

7. Financial Management Systems and Reporting. Project expenditures will be recorded – budgeted, committed and paid - in SIAFI, the Federal Government’s public financial management system. A new *Unidade Gestora* will be opened specifically for the project in the SIAFI system, which will produce monthly lists of payments and reports by expenditure, to be used as the basis for disbursements. For monitoring purposes, and given that the Loan Agreement will have a single disbursement category, agreement was reached during negotiations on the Financial Monitoring Reports (FMRs) format. FMRs will be produced, on a spreadsheet, every quarter, providing the following data: FMR 1A – Sources and Uses of Funds, by disbursement category, cumulative (project-to-date; year-to-date and for the period) and budgeted vs. actual expenditures, including a variance analysis; FMR 1B – Uses of Funds by Project Activity or Component, cumulative (project-to-date; year-to-date and for the period, by financing source) and budgeted vs. actual expenditures, including a variance analysis; Physical Progress Report: FMR 2 – Monitoring/Performance Indicators. Formats for Procurement monitoring and physical progress have also been agreed upon by the Bank and Government and would be used during implementation.

8. Supervision. Financial management supervision will take place at least once a year and include (a) reviewing of FMRs; (b) reviewing of the auditors’ reports and follow-up of issues raised by auditors in the management letter, as appropriate; (c) participation in project supervision; (d) following up on any financial reporting and disbursement issues; and (e) updating the financial management rating in the Implementation Status Report (ISR).

9. Disbursements. Payments will be made directly to consultants and suppliers by the UGP, using the SIAFI system. Funds will be transferred from the single treasury account to the payee, upon instructions from the UGP. On a monthly basis, the UGP will extract, from SIAFI, a list of payments, *ordens bancárias*, and a summary of Project expenditures. These two reports will be accompanied, as applicable, by invoices for payments made for contracts above the Bank’s prior review threshold and will be submitted to the Bank via *Secretaria Nacional do Tesouro* (STN) of the Ministry of Finance. The Bank will then reimburse STN on the basis of such reports, which will support the withdrawal application. The Bank will finance one hundred percent of eligible expenditures, including taxes, in accordance with the recently approved country financing parameters.

10. Accounting Basis, Procedures and Policies. Project financial statements will be prepared, on a cash accounting basis, quarterly and annually. These statements will be prepared in accordance with consistently applied accounting standards as per Law 4.320, acceptable to the Bank.

11. Auditing Arrangements. Annual project financial statements will be audited by independent auditors, satisfactory to the Bank, in accordance with acceptable auditing standards. In principle, the *Secretaria Federal de Controle*, (SFC) an entity duly recognized by the Bank, will undertake the project’s annual financial audits. The external audit will be conducted in line with Terms of Reference acceptable to the Bank, and auditors will be required to issue a single opinion on project’s financial statements, as per the guidelines “*Annual Financial Reporting and Auditing for World Bank-financed activities*”, of June 30, 2003. Auditors will also have to produce a management letter, where relevant internal control weaknesses will be identified and properly followed up by the UGP, contributing to the strengthening of the control environment. The auditor’s report will be submitted to the Bank no later than six months after the closing of the borrower’s fiscal year.

Financial Management Risk Assessment

Program Risk Assessment. The Risk Assessment Matrix below presents the items of potential risk for the project from a Financial Management standpoint. The overall Financial Management risk is considered low.

Table 1 – Financial Risk Assessment					
Risk	H	S	M	L	Mitigators
Inherent Risks					
i. Country specific				x	
ii. Sub-national level				x	
iii. Entity specific				x	
iv. Project specific				x	
Control Risks					
i. Implementing Agency				x	
ii. Flow of Funds				x	
iii. Accounting procedures				x	
iv. Internal/External Audit				x	
v. Reporting & Monitoring			x		Parallel system will be required for monitoring purposes.
vi. Information Systems				x	

H-High S-Substantial M-Moderate L-Low

Annex 9: Procurement
BRAZIL: Housing Sector Technical Assistance Loan

General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The general description of various items under different expenditure category is described below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.
2. Procurement of Works. There will be no procurement of works in this project.
3. Procurement of Goods. This project is expected to have a very low volume of procurement of goods. There will be purchase of computer equipment and software which shall be procured through "*pregão eletrônico*" (reverse auction) if the amount involved falls below the shopping threshold. In addition, small contracts for procurement of printing services are also planned. No National Competitive Bidding (NCB) for procurement of goods was identified during preparation. If necessary during implementation, procurement will be done using the Bank's Standard Bidding Documents (SBDs) for all ICB and the model bidding documents published by SEAIN for NCB.
4. Procurement of non-consulting services. No contract of non-consulting services was identified.
5. Selection of Consultants. Project design shows a high volume of consultant contracts, mainly for technical assistance, marketing and communication plans, development of a monitoring and evaluation system, design of toolkits, and development of national urban upgrading program, among others. Some smaller studies are likely to be done by individuals. Short lists of consultants for services estimated to cost less than \$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Assessment of the agency's capacity to implement procurement

6. Procurement activities will be carried out by the *Ministério das Cidades*. An assessment of the capacity of the Implementing Agency to implement procurement actions for the project has been carried out by Alexandre Borges de Oliveira on November 17, 2004 and later discussed with the client on March 18, 2005. The assessment reviewed the organizational structure for implementing the Project and the interaction between the Project's staff responsible for procurement.
7. The major issue identified is the lack of specialized procurement staff in the implementing agency. An action plan was agreed to during project preparation to strengthen the procurement team.

The overall project risk for procurement is average.

Procurement Plan

8. The Borrower, at Appraisal, developed a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on March 30, 2005 and is available at the *Ministério das Cidades* and the Bank CMU files. It will also be available in the Project's database and on the Bank's external website. The Procurement Plan will be updated annually in agreement with the Project Team or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of Procurement Supervision

9. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended two post-reviews for the first year of project implementation and annually from there on.

Procurement Methods and Thresholds¹⁷

Goods				
N°	Procurement Method	Thresholds (USD)	Prior Review thresholds (USD)	Comments
1	Shopping (Goods)	<100,000		During project preparation, no NCB was identified
2	National Competitive Bidding (NCB for Goods)	≥ 100,000	All above USD 350,00	
Consultants				
N°	Selection Method	Threshold (USD)	Prior Review threshold (USD)	
1	Quality and cost based selection (QCBS)		> 100,000	
2	Selection based on consultant's qualifications	≤ 100,000		
3	Least cost selection	≤ 100,000		

¹⁷ Neither ICB nor NCB for procurement of goods was identified for this Project. However, if necessary during implementation, NCB will be required for goods estimated to cost more than US\$ 100,000 and less than US\$ 350,000. Above US\$ 350,000, if necessary, goods shall be procured through ICB. All ICB and direct contracting will be subject to Bank's prior review.

Consultancy services estimated to cost above US\$ 100,000 per contract and all Single Source selection of consultants (firms) will be subject to prior review by the Bank.

Short lists comprising entirely of national consultants. Short list of consultants for services, estimated to cost less than \$500,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 10: Project Preparation and Supervision
BRAZIL: Housing Sector Technical Assistance Project

	Planned	Actual
PCN review	January 7, 2005	January 7, 2005
Initial PID to PIC	January 7, 2005	January 7, 2005
Initial ISDS to PIC	N/A	N/A
Appraisal	March 28, 2005	March 28, 2005
Negotiations	July 15, 2005	September 27, 2005
Board/RVP approval	September 2005	November 2005
Planned date of effectiveness	January 2, 2006	January 2, 2006
Planned date of mid-term review	January 2007	January 2007
Planned closing date	September 30, 2009	September 30, 2009

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Maria Emilia Freire	Task Team Leader	LCSFU
David N. Sislen	Task Team Leader	LCSFU
Dean Cira	Urban Specialist	LCSFU
Ivo Imparato	Urban Specialist	LCSFU
Loic Chiquier	Housing Finance Specialist	OPD
Marja Hoek-Smit	Housing Specialist	Consultant
Kathy Lindert	Monitoring and Evaluation Specialist	LCSHS
Pedro Olinto	Monitoring and Evaluation Specialist	LCSPP
Paula Pini	Environmental Specialist	LCSFN
Maria do Carmo Bicudo	Environmental Specialist	Consultant
Edesio Fernandes	Land Specialist	Consultant
Jose Janeiro	Financial Management Specialist	LCOAA
Luiz Gazoni	Procurement Specialist	LCOPR
Jose Augusto Carvalho	Counsel	LEGLA
Cristina Velazco-Weiss	Language Program Assistant	LCSFU
Violeta Wagner	Senior Program Assistant	LCSFU
Robert Buckley	Peer Reviewer	TUDUR
Sonia Hammam	Peer Reviewer	SASEI
Christine Kessides	Peer Reviewer	TUDUR
Anna Wellenstein	Peer Reviewer	LCSFP
Omar Razzazz	Peer Reviewer	MNCLB

Annex 11: Statement of Loans and Credits
BRAZIL: Housing Sector Technical Assistance Project

Project ID	FY	Purpose	Original Amount in US\$ Millions						Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P082328	2005	BR-Integ.Munic.Proj.-Betim Municipality	24.07	0.00	0.00	0.00	0.00	24.08	0.00	0.00
P083533	2005	BR TA-Sustain. & Equit Growth	12.12	0.00	0.00	0.00	0.00	12.12	0.00	0.00
P087711	2005	BR Espirito Santo Wtr & Coastal Pollu	36.00	0.00	0.00	0.00	0.00	36.00	0.73	0.00
P069934	2005	BR-PERNAMBUCO INTEG DEVT: EDUC QUAL IMPR	31.50	0.00	0.00	0.00	0.00	31.50	0.79	0.00
P060573	2004	BR Tocantins Sustainable Regional Dev	60.00	0.00	0.00	0.00	0.00	60.00	7.00	0.00
P080830	2004	BR Maranhao Integrated: Rural Dev	30.00	0.00	0.00	0.00	0.00	30.00	1.92	0.00
P083013	2004	BR Disease Surveillance & Control APL 2	100.00	0.00	0.00	0.00	0.00	99.50	0.00	0.00
P087713	2004	BR (CRL1) Bolsa Familia 1st APL	572.20	0.00	0.00	0.00	0.00	572.20	0.00	0.00
P070827	2003	BR-2nd APL BAHIA DEV. EDUCATION PROJECT	60.00	0.00	0.00	0.00	0.00	42.19	20.68	0.00
P049265	2003	BR-RECIFE URBAN UPGRADING PROJECT	46.00	0.00	0.00	0.00	0.00	44.99	6.25	0.00
P058503	2003	GEF BR Amazon Region Prot Areas (ARPA)	0.00	0.00	0.00	30.00	0.00	26.31	0.00	0.00
P054119	2003	BR BAHIA DEVT (HEALTH)	30.00	0.00	0.00	0.00	0.00	28.27	6.27	0.00
P080400	2003	BR-AIDS & STD Control 3	100.00	0.00	0.00	0.00	0.00	91.85	17.15	0.00
P076977	2003	BR-Energy Sector TA Project	12.12	0.00	0.00	0.00	0.00	12.12	4.02	0.00
P074777	2003	BR-Municipal Pension Reform TAL	5.00	0.00	0.00	0.00	0.00	4.90	4.30	0.00
P051696	2002	BR SÃO PAULO METRO LINE 4 PROJECT	209.00	0.00	0.00	0.00	0.00	163.48	126.58	0.00
P073192	2002	BR TA Financial Sector	14.50	0.00	0.00	0.00	0.00	9.30	6.48	0.00
P055954	2002	BR GOIÁS STATE HIGHWAY MANAGEMENT	65.00	0.00	0.00	0.00	0.00	34.46	34.12	0.00
P057653	2002	BR- FUNDESCOLA IIIA	160.00	0.00	0.00	0.00	0.00	209.31	-22.78	0.00
P057665	2002	BR-FAMILY HEALTH EXTENSION PROJECT	68.00	0.00	0.00	0.00	0.00	50.81	38.67	0.00
P070552	2002	GEF BR PARANA BIODIVERSITY PROJECT	0.00	0.00	0.00	8.00	0.00	8.59	5.99	0.00
P074085	2002	BR Sergipe Rural Poverty Reduction	20.80	0.00	0.00	0.00	0.00	3.13	-1.96	0.00
P060221	2002	BR FORTALEZA METROPOLITAN TRANSPORT PROJ	85.00	0.00	0.00	0.00	0.00	111.47	57.35	0.00
P066170	2002	BR-RGN 2ND Rural Poverty Reduction	22.50	0.00	0.00	0.00	0.00	13.68	6.48	0.00
P043869	2002	BR SANTA CATARINA NATURAL RESOURC & POV.	62.80	0.00	0.00	0.00	0.00	59.96	19.11	0.00
P073294	2001	BR Fiscal & Fin. Mgmt. TAL	8.88	0.00	0.00	0.00	0.00	6.74	5.78	0.00
P050881	2001	BR PIAUI RURAL POVERTY REDUCTION PROJECT	22.50	0.00	0.00	0.00	0.00	8.78	7.45	0.00
P059566	2001	BR- CEARA BASIC EDUCATION	90.00	0.00	0.00	0.00	0.00	71.32	-18.68	0.00
P050772	2001	BR LAND-BASED POVRTY ALLEVIATION I (SIM)	202.10	0.00	0.00	0.00	58.13	151.01	152.74	0.00
P050880	2001	BR Pernambuco Rural Poverty Reduction	30.10	0.00	0.00	0.00	0.00	16.65	12.92	0.00
P057649	2001	BR Bahia Rural Poverty Reduction Project	54.35	0.00	0.00	0.00	0.00	5.02	-1.77	0.00

P050875	2001	BR Ceara Rural Poverty Reduction Project	37.50	0.00	0.00	0.00	0.00	7.26	2.01	0.00
P050776	2000	BR NE Microfinance Development	50.00	0.00	0.00	0.00	0.00	30.15	-19.85	0.00
P047309	2000	BR ENERGY EFFICIENCY (GEF)	0.00	0.00	0.00	15.00	3.29	9.39	11.17	6.25
P039199	2000	BR PROSANEAR 2	30.30	0.00	0.00	0.00	6.40	22.29	28.69	22.29
P006449	2000	BR CEARA WTR MGT PROGERIRH SIM	136.00	0.00	0.00	0.00	0.00	67.27	47.14	4.00
P035741	2000	BR NATL ENV 2	15.00	0.00	0.00	0.00	2.32	5.61	7.93	2.29
P048869	1999	BR SALVADOR URBAN TRANS	150.00	0.00	0.00	0.00	0.00	85.95	85.95	0.00
P050763	1999	BR- Fundescola 2	202.00	0.00	0.00	0.00	0.00	17.29	17.29	0.00
P058129	1999	BR EMER. FIRE PREVENTION (ERL)	15.00	0.00	0.00	0.00	0.00	5.46	5.46	0.18
P042565	1998	BR PARAIBA R.POVERTY	60.00	0.00	0.00	0.00	0.00	11.16	11.16	0.00
P035728	1998	BR BAHIA WTR RESOURCES	51.00	0.00	0.00	0.00	0.00	4.03	4.03	0.03
P006559	1998	BR (BF-R)SP.TSP	45.00	0.00	0.00	0.00	0.00	0.02	0.02	0.00
P006474	1998	BR LAND MGT 3 (SAO PAULO)	55.00	0.00	0.00	0.00	10.00	36.98	46.98	21.63
P038895	1998	BR FED.WTR MGT	198.00	0.00	0.00	0.00	40.00	54.67	94.67	26.23
P043421	1998	BR RJ M.TRANSIT PRJ.	186.00	0.00	0.00	0.00	27.78	92.74	120.52	0.00
P057910	1998	BR PENSION REFORM LIL	5.00	0.00	0.00	0.00	0.50	1.48	1.98	1.28
P043420	1998	BR WATER S.MOD.2	150.00	0.00	0.00	0.00	125.00	19.33	144.30	3.78
P006532	1997	BR FED HWY DECENTR	300.00	0.00	0.00	0.00	50.00	61.51	111.51	111.51
P043873	1997	BR AG TECH DEV.	60.00	0.00	0.00	0.00	0.00	15.24	15.24	15.24
P043868	1997	BR RGS LAND MGT/POVERTY	100.00	0.00	0.00	0.00	0.00	8.79	8.79	8.79
P034578	1997	BR RGS Highway MGT	70.00	0.00	0.00	0.00	0.00	30.09	30.09	30.09
P037828	1996	BR (PR)R.POVERTY	175.00	0.00	0.00	0.00	10.00	38.36	48.36	48.36
P006210	1996	GEF BR-NAT'L BIODIVERSITY	0.00	0.00	0.00	10.00	0.00	1.87	2.59	1.30
Total:			4,325.34	0.00	0.00	63.00	333.42	2,666.68	1,323.62	303.25

BRAZIL
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

Approval Fiscal Year	Institution Short Name	Loan Cmt'd-IFC	Equity Cmt'd-IFC	QL+QE Cmt'd-IFC	All Cmt'd-Part	Loan Out-IFC	Equity Out-IFC	QL+QE Out-IFC	All Out-Part
2001	AG Concession	0.00	15.00	15.00	0.00	0.00	14.07	0.00	0.00
2002/2005	Amaggi	55.71	0.00	0.00	0.00	40.71	0.00	0.00	0.00
2002	Andrade G. SA	27.50	0.00	10.00	16.67	27.50	0.00	10.00	16.67
2001	Apolo	7.21	0.00	0.00	0.00	4.71	0.00	0.00	0.00
2005	Aracruz	50.00	0.00	0.00	0.00	50.00	0.00	0.00	0.00
1998	Arteb	20.00	7.00	0.00	18.33	20.00	7.00	0.00	18.33
1999	AutoBAN	22.73	0.00	0.00	17.25	22.73	0.00	0.00	17.25
1998	BSC	1.24	0.00	0.00	0.66	1.24	0.00	0.00	0.66
1996/2003	Banco Bradesco	1.19	0.00	0.00	1.75	1.19	0.00	0.00	1.75
2001	Brazil CGFund	0.00	20.00	0.00	0.00	0.00	1.60	0.00	0.00
1994/1996	CHAPECO	11.78	0.00	0.00	5.26	11.78	0.00	0.00	5.26
2002/2004	CN Odebrecht	29.04	0.00	20.00	31.59	29.04	0.00	20.00	31.59
1973 / 1978 / 1983	CODEMIN	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2003	CPFL Energia	0.00	0.00	40.00	0.00	0.00	0.00	40.00	0.00
1992	CRP-Caderi	0.00	0.32	0.00	0.00	0.00	0.32	0.00	0.00
1996 / 1997	CTBC Telecom	11.50	18.17	0.00	0.00	11.50	18.17	0.00	0.00
2004	Comgas	45.00	0.00	0.00	45.00	12.50	0.00	0.00	12.50
1997 / 2000	Coteminas	4.69	5.43	0.00	0.00	4.69	5.43	0.00	0.00
1980 / 1992 / 1993	DENPASA	0.00	1.12	0.00	0.00	0.00	1.08	0.00	0.00
1998	Dixie Toga	0.00	14.90	0.00	0.00	0.00	14.90	0.00	0.00
1987 / 1996 / 1997	Duratex	6.76	0.00	0.00	3.95	6.76	0.00	0.00	3.95
1999	Eliane	19.20	0.00	13.00	0.00	19.20	0.00	13.00	0.00
1998	Empesca	5.00	0.00	10.00	0.00	5.00	0.00	10.00	0.00
2000 / 2004	Fleury	25.79	0.00	6.00	0.00	5.79	0.00	6.00	0.00
1998	Fosfertil	5.30	0.00	0.00	21.36	5.30	0.00	0.00	21.36
1998	Fras-le	6.00	0.00	10.00	0.00	6.00	0.00	6.70	0.00
1994	GAVEA	0.94	0.00	5.50	0.00	0.94	0.00	5.50	0.00
2002	GP Cptl Rstrctd	0.00	8.70	0.00	0.00	0.00	8.62	0.00	0.00
2001	GPC	9.00	0.00	0.00	0.00	9.00	0.00	0.00	0.00
1997 / 1998	Guilman-Amorim	20.99	0.00	0.00	28.74	20.99	0.00	0.00	28.74
1998	Icatu Equity	0.00	14.00	0.00	0.00	0.00	12.62	0.00	0.00
1999	Innova SA	12.50	5.00	0.00	30.00	12.50	5.00	0.00	30.00
1980 / 1987 / 1997	Ipiranga	23.62	6.32	0.00	39.75	23.62	6.32	0.00	39.75
1999	Itaberaba	0.00	5.34	0.00	0.00	0.00	5.34	0.00	0.00
2000 / 2002 / 2003	Itau-BBA	99.29	0.00	0.00	0.00	71.69	0.00	0.00	0.00
1999	JOSAPAR	7.57	0.00	7.00	0.00	2.57	0.00	7.00	0.00
1995	Lojas Americana	2.00	0.00	0.00	0.00	2.00	0.00	0.00	0.00
1987 / 1992 / 1999	MBR	12.50	0.00	10.00	0.00	12.50	0.00	10.00	0.00
2002	Macaé	45.25	0.00	10.00	37.50	45.25	0.00	10.00	37.50
2002	Microinvest	0.00	1.25	0.00	0.00	0.00	0.42	0.00	0.00
2002 / 2003	Net Servicos Para Pigmentos	0.00	36.39	0.00	0.00	0.00	36.39	0.00	0.00
1994	Perdigao	8.60	0.00	9.00	0.00	8.60	0.00	9.00	0.00
1987 / 1996	Portobello	2.19	0.00	0.00	0.00	2.19	0.00	0.00	0.00
1994/2000/2002	Puras	12.52	6.15	0.00	0.00	12.52	6.15	0.00	0.00
2000	Queiroz Galvao	2.67	0.00	0.00	0.00	2.67	0.00	0.00	0.00
2003 / 2004	Randon Impl Part	30.00	0.00	10.00	0.00	5.00	0.00	5.00	0.00
2004	SP Alpargatas	3.73	0.00	3.00	0.00	3.73	0.00	3.00	0.00
1987 / 1997 / 2003		36.67	0.00	0.00	0.00	21.67	0.00	0.00	0.00

1994/ 1995/ 1997	Sadia	6.11	0.00	3.83	38.74	6.11	0.00	3.83	38.74
1997	Samarco	6.30	0.00	0.00	0.00	6.30	0.00	0.00	0.00
1998	Saraiva	3.46	3.00	0.00	0.00	3.46	3.00	0.00	0.00
2003	Satipel	12.86	0.00	10.00	0.00	12.86	0.00	10.00	0.00
2000	Sepetiba	26.85	0.00	5.00	0.00	11.85	0.00	5.00	0.00
1999	Sudamerica	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
2001	Synteko	15.43	0.00	0.00	0.00	15.43	0.00	0.00	0.00
1996	TIGRE	1.92	0.00	0.00	0.00	1.92	0.00	0.00	0.00
1998 / 2004	Tecon Rio Grande	12.80	0.00	5.50	15.52	4.70	0.00	5.50	7.42
2001 / 2003	Tecon Salvador	3.30	1.56	0.00	4.15	3.30	1.32	0.00	4.15
2004	TriBanco	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1981 / 1987	Triunfo	0.00	-0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002 / 2003	UP Offshore	11.60	10.00	0.00	30.00	0.00	3.00	0.00	0.00
1988/ 1994/ 1996/ 2002 / 2003 / 2004	Unibanco	57.18	0.00	0.00	0.00	57.18	0.00	0.00	0.00
1999	Wiest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Portfolio:		853.48	194.64	202.83	386.23	666.18	165.74	179.53	315.63



CARTA DE POLÍTICA PARA O SETOR HABITACIONAL

Brasília, 06 de maio de 2005.

Sr. James Wolfensohn
Presidente
Banco Mundial
Washington, D.C.

Prezado Senhor Wolfensohn,

O Governo do Presidente Luiz Inácio Lula da Silva tem implementado uma importante agenda de reformas microeconômicas, destinada a promover o aumento da produtividade da economia brasileira e o crescimento equitativo. Nesse contexto, a fim de apoiar o financiamento do seu esforço de reformas para o setor habitacional, o Governo Brasileiro solicitou ao Banco Mundial um programa de Empréstimos para Política de Desenvolvimento (DPLs). Essas reformas fazem parte do grupo de atividades que o Banco Mundial vem apoiando na área de Crescimento Equitativo e Sustentado, cujo primeiro empréstimo foi aprovado no ano passado.

2. O Governo atual tem dado ao setor habitacional para a população de baixa renda uma grande importância, em função do impacto que a habitação tem na vida cotidiana dos segmentos de mais baixa renda da população, bem como na criação de empregos e na promoção da atividade econômica. Abaixo, estão mencionadas as medidas mais importantes já adotadas, ou planejadas, para enfrentar as principais questões que afetam o setor habitacional no Brasil.

3. O Governo está ciente dos enormes desafios que o setor apresenta. O déficit habitacional brasileiro está estimado em cerca de 7 milhões de unidades, sendo que 88% desse déficit estão concentrados em famílias com renda inferior a 5 salários mínimos. Esses indicadores não melhorarão se não conseguirmos enfrentar o excesso de demanda por serviços de habitação gerados por novas unidades familiares que se formam anualmente. Parcela significativa do número de famílias formadas anualmente não consegue ter acesso às residências mais baratas produzidas pelo mercado e recorrem ao mercado informal de habitação.

4. O Governo já identificou quatro áreas em que medidas e reformas são cruciais para aumentar o acesso dos mais pobres à moradia adequada. Primeiro, o Governo está trabalhando para fortalecer as instituições que atuam no setor, bem como sua capacidade de coordenação, tendo por base informações estatísticas adequadas e análises detalhadas, a fim de definir um plano de médio prazo, com prioridades claras e metas financeiras realistas. Segundo, o

Governo está empenhado em uma maior integração do mercado financeiro de habitação, apoiada na consolidação da estabilização macroeconômica e em reformas estruturais que permitam a redução consistente da taxa de juros básica e dos spreads cobrados no sistema financeiro. A estratégia governamental é de, no curto prazo, melhorar a situação do sistema financeiro habitacional, promover maior eficiência entre os agentes financeiros que operam no setor, harmonizando subsídios implícitos e explícitos e criando mecanismos que reduzam o risco jurídico dos contratos, protegendo tanto mutuários quanto agentes financeiros. Desta forma, estarão estabelecidas as condições para que, no futuro, se alcance maior integração dos mercados de financiamento habitacional. Terceiro, o Governo continuará seus esforços para modernizar o setor de financiamento habitacional e os instrumentos do mercado de capitais, a fim de adequar o volume de recursos financeiros do setor habitacional e permitir uma reorientação gradual desse financiamento para as classes de renda mais baixa. Quarto, o Governo está trabalhando na melhora da oferta de terra urbanizada formal. Muitos dos desafios encontram-se no nível dos governos estaduais e municipais, em particular na oferta de solo urbano, incluindo formalidades para titulação e parcelamento do solo, licenciamento de construções e licenciamentos urbanístico e ambiental.

Fortalecimento Institucional

5. As questões referentes à política e financiamento habitacional no Brasil têm sido responsabilidade de várias agências governamentais, o que requer uma coordenação entre elas. Nesse contexto, o Governo tomou importantes medidas, começando com a criação do Ministério das Cidades (Lei 10.683, de 28 de maio de 2003) e sua Secretaria Nacional da Habitação, como órgão federal responsável pela política habitacional, seus programas e ações. Outras medidas foram adotadas, visando assegurar a capacidade técnica e administrativa da Secretaria Nacional da Habitação, incluindo: (a) a criação de unidade técnica para elaborar, monitorar e avaliar o Plano Nacional de Habitação e (b) a contratação de pessoal/consultores para assegurar adequada capacidade técnica interna.

6. Com a criação do Ministério das Cidades, o Governo, em colaboração com amplos setores da sociedade civil, avançou na preparação de sua política habitacional, visando estabelecer as coordenadas da ação governamental que assegure o acesso da população a moradia adequada. Esse esforço resultou na publicação, em 2004, pelo Ministério das Cidades, de documento intitulado Política Nacional de Habitação, o qual define as principais diretrizes para o setor, além de propostas para sua implementação. Ajustes provavelmente ocorrerão durante o processo de implementação da política e de sua consolidação efetiva por meio de lei e de plano de investimentos plurianual contendo objetivos, metas e indicadores.

7. Em consonância com esse esforço, o Congresso Nacional está apreciando Projeto de Lei que cria o Fundo Nacional para Habitação de Interesse Social (FNHIS), para coordenar transferências, subsídios, recursos e financiamento à política de habitação. O Projeto de Lei foi aprovado pela Câmara dos Deputados e aguarda sua aprovação pelo Senado. A criação do Fundo representa uma tentativa de articular os recursos orçamentários utilizados para fins de política habitacional e de aumentar sinergias entre programas financiados pelo setor público. No curto prazo, e após a aprovação pelo Congresso Nacional, será necessário regulamentar a operacionalização e funcionamento do FNHIS, definindo sua estrutura de gestão e promovendo inclusão progressiva dos subsídios orçamentários nesta única estrutura, na forma definida em lei.

8. Para consolidar a colaboração e coordenação entre os entes envolvidos, o Governo criou um **Grupo Interministerial de Acompanhamento das Políticas de Financiamento e Subsídios à Habitação**, que acompanhará os componentes da Política Habitacional nas bases de mercado e de interesse social, assim como os trabalhos desenvolvidos com apoio do empréstimo de assistência técnica do Banco Mundial para o setor.

9. Para reforçar a capacidade de implementação dessas políticas, o Governo lançou um programa abrangente de capacitação, visando o fortalecimento dos municípios na operação de programas e políticas do Ministério das Cidades. Esta ação está sendo acompanhada de medidas para mapear e avaliar a capacidade das agências sub-nacionais envolvidas com planejamento e política habitacional. Finalmente, estamos reforçando as atividades institucionais e de treinamento em municípios, com foco em instrumentos e práticas de políticas urbanas e habitacionais.

Ampliando o Financiamento Habitacional

10. O financiamento habitacional é um dos pilares para a promoção de amplo acesso à habitação. No Brasil, grandes reformas têm sido feitas nos últimos anos para estimular o desenvolvimento de mercados secundários e a emissão de papéis securitizados que podem ser transacionados no mercado com segurança e lucratividade. Nossa experiência tem sido bem sucedida. Embora o mercado de títulos lastreados em financiamento habitacional seja ainda incipiente, apresenta um forte potencial de crescimento, o qual deve aumentar *pari passu* com a consolidação da melhora das condições macroeconômicas que temos observado nos últimos meses. Importantes medidas foram tomadas para estimular a canalização de poupança para o setor, tal como a aprovação da Lei 10.931, que inclui: (a) o fortalecimento da *alienação fiduciária* (criada em 1997, Lei 9.514) como um sistema alternativo de garantia; (b) o reforço do grau de confiança das instituições de crédito interessadas em financiamento habitacional, tornando possível regulamentar títulos de crédito imobiliário (CRI e LCI); (c) a regulamentação do *Patrimônio de Afetação* em incorporações imobiliárias; (d) a introdução de meios eficazes de fiscalização, tornando viável a continuidade dos trabalhos de construção, em caso de falência dos empreendedores; (e) a simplificação do imposto incidente sobre as receitas do Patrimônio de Afetação, mediante instituição do Regime de Tributação Especial (RTE), com agrupamento de taxas e contribuições federais em uma única alíquota; e (f) a regulamentação da solução de disputas legais controversas.

11. Além disso, o Governo instituiu reformas legais que permitem aos credores securitizar seus empréstimos habitacionais e facilitar a criação de companhias privadas de securitização, assim como, estabeleceu arcabouço legal para os instrumentos do mercado de títulos derivativos de empréstimos lastreados em garantia imobiliária (CRI). A Carta de Garantia de Recompra de CRI's – *Certificado de Recebíveis Imobiliários* – foi criada pela Res. 3155/2003, do Conselho Monetário Nacional (CMN), com o objetivo de aumentar a liquidez desses títulos, melhorando a segurança dos detentores dos créditos e estimulando a expansão de um mercado secundário de hipotecas. Finalmente, as Leis 11.053/04 e 11.033/04 facilitam o desenvolvimento do mercado de papéis lastreados em garantias imobiliárias, por incluir incentivos fiscais para fundos mútuos e de pensão na compra de papéis de longo prazo, além de instituir a isenção de imposto de renda para investidores de varejo que tenham papéis com lastro em crédito imobiliário (LH, LCI e CRI).

12. Com o propósito de consolidar e expandir o mercado, o Governo pretende continuar o aprimoramento do arcabouço legal, apresentando propostas para reduzir o risco jurídico dos contratos de crédito imobiliário e promover a instituição de um banco de dados de proteção ao consumidor (*cadastro positivo*), contemplando os mutuários do setor habitacional. Além disso, pretende-se estudar o potencial de desenvolvimento do seguro de crédito e trabalhar com o Judiciário para refletir conjuntamente sobre as condições específicas do mercado habitacional e a necessidade de reforçar os contratos como medida vital para que o mercado floresça.

13. A consolidação da estabilidade macroeconômica e as reformas de caráter microeconômico que vêm sendo adotadas já contribuem e vão certamente proporcionar um ambiente ainda mais favorável a uma maior participação dos bancos privados no financiamento habitacional, tornando mais interessante para o setor financeiro conceder financiamentos habitacionais.

14. Durante esse período de consolidação de reformas, o mercado financeiro habitacional de longo prazo requer regulamentação e proteção adequada. Os dois segmentos de mercado que contabilizam mais de 75% do mercado habitacional incluem o SBPE e o FGTS. O primeiro tem suprido cerca de 25% dos empréstimos habitacionais. Financiado por cadernetas de poupança, que desfrutam de isenção de impostos, o SBPE (Sistema Brasileiro de Poupança e Empréstimo) tem à sua disposição um grande volume de recursos, parcialmente direcionados para empréstimos habitacionais. Dada a baixa lucratividade relativa desses créditos e a ainda pequena atuação dos bancos privados nesse segmento, o Conselho Monetário Nacional determinou um aumento na aplicação em empréstimos habitacionais dos recursos captados pela poupança, bem como instituiu mecanismos de monitoramento para que os bancos atendam a essa determinação. Acreditamos que, no futuro, tal sistema não seja mais necessário, quando as condições permitirem sua integração ao sistema de mercado. Mais recentemente, a Resolução 3.259, de janeiro de 2005, compatibilizou as obrigações de aplicação em crédito imobiliário à capacidade do mercado de produzir unidades habitacionais, e definiu incentivos para o financiamento a imóveis para a população de baixa renda ou de baixo valor.

15. O Fundo de Garantia do Tempo de Serviço (FGTS) permanecerá sendo, mesmo em um horizonte mais longo, uma fonte importante de financiamento para habitação social. Ele responde por mais de metade do total de créditos habitacionais e é intenção do Governo focá-lo na população de baixa renda, mantendo sua lucratividade e segurança. No passado recente, o FGTS melhorou seus procedimentos de gestão de forma notável pela inclusão do cálculo explícito dos subsídios que concede nos financiamentos habitacionais (Resolução 460, CCFGTS). Além disso, determinou que, por volta de 2008, todos os recursos do FGTS beneficiarão famílias com menos de 10 salários mínimos (SM), aumentando, já em 2005, a quantia de crédito disponível para famílias de renda inferior a 6 SM.

16. No curto prazo, o Governo continuará empenhado em assegurar uma gestão eficiente do FGTS, no seu duplo papel de fundo providente e de fonte de financiamento habitacional, procurando explorar opções que estimulem o uso de tais recursos por um grupo mais amplo de instituições financeiras.

Melhorando a Eficiência dos Subsídios para Habitação

17. Pela primeira vez, o Governo criou um programa de subsídio direto e antecipado. O Programa de Subsídio à Habitação de Interesse Social (PSH) tem sido muito bem sucedido: é um programa transparente de subsídios antecipados; que prevê um sistema de leilão público para a distribuição de recursos do PSH, com o propósito de expandir o universo de instituições financeiras participantes; financiado com recursos do orçamento federal (OGU); e que vem sendo aprimorado ao longo do tempo. As melhoras iniciadas recentemente, entre outros objetivos, visam expandir o universo de instituições financeiras participantes. Estão sendo estudados mecanismos que proporcionem um ambiente mais competitivo para agentes de crédito e produtos alternativos, por meio de: (a) estabelecimento de um sistema de pré-qualificação de agentes financeiros, incluindo companhias do setor público local e (b) melhoria do processo de credenciamento técnico, para eliminar o risco de possíveis práticas desleais ou ilegais.

18. No futuro imediato, o Governo continuará os esforços para racionalizar e coordenar os programas de subsídio. A harmonização de tão diversos programas como os subsídios do FGTS, PAR, PSH e outros, deve contemplar questões relativas a benefícios por faixa de renda e critérios de acesso, entre outras. Como inovação recente, pode-se ressaltar a aprovação da Resolução 460 pelo Conselho Curador do FGTS, que estabeleceu uma nova política de subsídios antecipados, prevendo a alocação de R\$ 1,2 bilhão para 2005, segundo critérios bem definidos para seleção de beneficiários, e contemplando a possibilidade de conceder subsídios para aquisição de imóveis usados.

19. A agenda de curto prazo inclui a harmonização do sistema de subsídios, melhoria de focalização dos programas e a preparação de arcabouço para o sistema de Monitoramento e Avaliação do Programa Habitacional do Governo, com particular atenção aos componentes de subsídios.

Redução do Custo da Formalidade e Aumento da Oferta de Solo Urbano

20. Os obstáculos à uma oferta mais adequada de terra a preços acessíveis para a população de baixa renda continuam a ser um grande problema. Aspectos da própria legislação, bem como de processos de registros, dificultam as ações de promoção da ampliação da oferta de terra pelo mercado formal. O Governo empreendeu um processo de consulta pública e apoiou o delineamento da proposta de nova lei de parcelamento do solo e regularização fundiária para áreas urbanas. Conhecido como "Lei de Responsabilidade Territorial", esse PL pretende promover avanços a partir do arcabouço legal do Estatuto da Cidade, constituindo o novo marco regulatório da produção e regularização de assentamentos humanos no país.

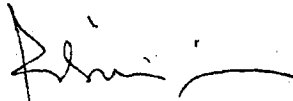
21. Além disso, o Governo lançou um programa de apoio ao desenvolvimento de planos urbanísticos municipais incluindo: (a) o desenvolvimento de um conjunto de ferramentas para preparação de planos diretores, no contexto do Estatuto da Cidade; (b) o desenvolvimento de um banco de dados nacional de consultores qualificados para dar suporte aos municípios, na preparação de planos diretores participativos; e (c) a alocação de verbas do OGU para apoiar o desenvolvimento de planos diretores participativos.

22. No médio prazo, o Governo deverá lançar um programa de integração urbana de assentamentos precários em áreas metropolitanas, onde se encontram 90% dos assentamentos informais. Relativamente à política de desenvolvimento urbano, o Governo deverá incluir no Plano Nacional de Habitação diretrizes de política para estimular a oferta de terra urbana, definindo instrumentos e incentivos aos governos municipais e outros agentes para a redução de custos administrativos de acesso ao mercado e parcelamento de terra urbana.

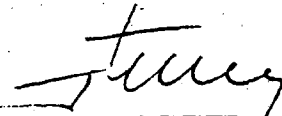
Assistência Financeira

23. A agenda de reformas e iniciativas descritas acima demonstra o forte comprometimento do Governo com o setor da habitação. Nesse contexto, o Governo agradece a participação do Banco no financiamento do programa de reformas descrito acima e o apoio dado através do Empréstimo para Política de Desenvolvimento. Desejamos continuar trabalhando com o Banco em empréstimos programáticos futuros voltados para o crescimento equitativo e sustentável da economia brasileira e para a provisão de moradia adequada e de serviços habitacionais aos brasileiros.

Cordialmente,



Antonio Palocci Filho
Ministro da Fazenda



Olívio Dutra
Ministro das Cidades

Annex 12: Letter of Development Policy
BRAZIL: Housing Sector Technical Assistance Project

The attached is a translation of the Government of Brazil's Development Policy Letter, submitted originally for inclusion in the Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform.

LETTER OF DEVELOPMENT POLICY

TRANSLATED FROM ORIGINAL DOCUMENT

Brasilia, May 06, 2005

Mr James Wolfensohn
President
World Bank
Washington D.C.

Dear Mr. President

1. The Government of President Luis Inacio da Silva has been implementing an important program of microeconomic reforms aimed at promoting an increase in economic productivity and equitable growth of the Brazilian economy. In this context, the Brazilian Government has requested from the World Bank a program of Development Policy Loans (DPLs) to support the financing of its housing sector reform. This reform program is part of the activities that the Bank is supporting in the area of Sustainable and Equitable Growth and whose first loan was approved last year.
2. The present administration has given a noticeable importance to the low income housing sector as a result of the impact that shelter has in the daily lives of the lowest income groups, as well as in the creation of jobs and in the promotion of economic activity. Below you will find the most important measures already taken, or to be taken, to address the main issues afflicting the housing sector in Brazil.
3. The Government is aware of the enormous challenges ahead. Brazil's housing deficit is estimated at about 7 million units; 88% of this deficit is concentrated in families earning less than 5 minimum wages. These numbers will not decline if we fail to address the excess of demand for housing services generated by the new households. A significant portion of the households formed every year cannot afford even the least expensive market-built house and turn to the informal housing markets.
4. The Government has identified four areas where measures and reforms are crucial to increase the access of the poor to adequate shelter. First, the Government is working to strengthen the institutions dealing with the sector as well as their capacity of coordination, based on adequate statistics and sound and detailed analysis so as to define a medium term plan with clear priorities and within realistic financial targets. Second, the Government is committed to produce a greater integration of the housing finance sector supported by the consolidation of the macroeconomic stabilization and the structural reforms which will lead to a consistent reduction of the basic interest rates and the financial intermediation spreads. The Government strategy is in the short run to improve the situation of the housing financing system, promoting greater

efficiency among financial agents, harmonizing implicit and explicit subsidies, and creating mechanisms of credit insurance that protect both lenders and borrowers. In this way, we will be creating the conditions to reach in the future a greater integration in the housing finance markets. Third, the Government will continue its efforts to modernize the housing finance sector and the capital market instruments in order to increase the volume of resources to the sector and allow a gradual reorientation to the lower income classes. Fourth, the Government is working to improve the supply of formal urbanized land. Many of the challenges are found at the level of state and municipal governments, in particular in the supply of urban land, including formalities in titling and subdivision, construction licenses, urban and environment licensing.

Institutional Strengthening

5. Housing policy and housing finance issues have been the function of several government agencies which require an effective coordination. In this context, the Government has taken important measures, beginning with the creation of the Ministry of Cities and its Housing Secretariat. (Law 10.683, May 28, 2003) and the creation of the National Housing Secretariat as the Federal agency responsible for the development, execution and monitoring of housing sector policy, programs and actions. We have taken further steps to ensure the technical and administrative capacity of the National Housing Secretariat, including, *inter alia*: (a) the creation of a technical unit to design the housing plan and conduct the associated monitoring and evaluation and (b) the contracting of staff/consultants to ensure adequate in-house technical capacity.

6. With the creation of the Ministry of Cities, the Government in collaboration with large groups of civil society has advance in the preparation of its National Housing Policy, aiming at establishing the coordinates of the Government policy to guarantee the Brazilian population the access to adequate shelter. This effort has let to the publication by the Ministry of Cities of the National Housing Policy document in 2004 defining the main principles and guidelines for the sector as well as the proposals for its implementation. Adjustments will likely take place during the implementation of the housing policy and of its effective consolidation through its law and the multi-year national plan comprising objectives, targets and indicators.

7. In parallel and as a complement to that effort, the National Congress is reviewing a Project Law which creates the National Social Interest Housing Fund (FNHIS) to coordinate transfers, subsidies, financial resources and funding to support the housing policy. The *Projeto de Lei* was approved by the House of Representatives and awaits its approval in the Senate. The creation of this Fund represents an attempt to homogenize the way resources are used for housing policy purposes and to increase synergies between programs financed by the public sector. In the near term, and after the approval by the National Congress, it will be necessary to regulate the functioning of the FNHIS, defining its management structure, and promoting a progressive inclusion of all budget subsidies in this single structure, as defined by the law.

8. To ensure the collaboration and coordination of the program, the Government has created an Inter-ministerial Group to follow the Housing Finance and Subsidy Policy that will follow the market-based and subsidy components of the Housing Policy as well as the work developed under the Bank-financed Technical Assistance Loan for the sector.

9. To strengthen the implementation capacity of these policies, the Government has launched a comprehensive capacity building program aimed at the institutional strengthening of municipalities in the operation of programs and policies of the Ministry of Cities. This action has been accompanied by measures to map and assess the capacity of the sub-national agencies

involved with housing planning and policy. Finally, we are strengthening the institutional and training activities in municipalities in metropolitan regions focused on instruments and practices in urban and housing policies.

Amplifying Housing Finance

10. Housing finance is one of the pillars to promote wider access of housing. In Brazil, major reforms have been undertaken in the last years to promote the development of secondary markets and the issuing of securitization papers that can be traded in the market with confidence and profitability. Our experience has been quite successful. Although the housing capital market is still limited, it has great growth potential which will materialize *pari passu* with the consolidation and improvement of the macroeconomic conditions as observed in the last months. Important measures have been taken so far to channel savings to this sector, such as the approval of Law 10931, which includes (a) the strengthening of *alienação fiduciária* (the trust deed instrument, created in 1997, Law 9514) as an alternative mode of collateralization; (b) the strengthening of credit institutions interested on housing financing, making it possible to regulate real estate credit titles (CRI and LCI); (c) regulation of the *Patrimônio de Afetação* (“affected assets”) at real estate developments; (d) introduction of efficacious means of inspection and making feasible the continuity of the construction works in case of the developers’ bankruptcy; (e) simplification of the tax over the revenues of *Patrimônio de Afetação*, through the creation of the Special Tax Regimen (RET – *Regime Especial de Tributação*); grouping federal taxes in a single tax aliquot; and (f) regulation of the solution of controversial legal disputes.

11. In addition, the Government instituted legal reforms which allow lenders to securitize their housing loans, facilitate the creation of private securitization companies, and establish legal framework for capital market instruments (CRI) for mortgage derivatives. Trust Letters for the repurchase of CRI’s – *Certificados de Crédito Imobiliário* – were created by Res.3155/2003 of the National Monetary Council (CMN), aimed at increasing the liquidity of these titles, improving the security of credit holders, and stimulating the expansion of a secondary mortgage market. Finally, Laws 11.053/04 and 11.033/04 facilitate the development of mortgage securities, including tax incentives for mutual and pension funds to purchase long term securities, in addition to implement income tax exemptions for retail investors holding SFI paper (LH, LCI, and CRI).

12. With the objective of developing and expanding the market, the Government intends to continue improving the regulatory framework, presenting proposals to reduce the judicial risk of the housing credit contracts and promote the establishment of a data bank for consumer protection (positive cadastre) aiming at the housing sector clients. In addition, the Government intends to study the potential to develop risk insurance and to work with the Judiciary to analyze jointly the specific conditions of the housing market and to assess the need to enforce the contracts as a vital measure for the market to flourish.

13. The consolidation of the macroeconomic stability and the microeconomic reforms that have been implemented already contribute and will certainly create an environment more favorable to a larger participation of the private banks in housing finance, making it more interesting for the financial sector to lend for housing related products.

14. During this period of consolidation of reforms in the sector, the long-term housing finance will require adequate regulation and protection.. The two segmented markets that account for more than 75% of the hosing market include SPBE and FGTS. The first has been providing around 25% of housing loans. Funded by tax free saving accounts, SBPE system (*Sistema*

Brasileiro de Poupanca e Empréstimo) has at its disposal a large volume of resources which have been partially oriented for housing loans. Given the relatively lower profitability of such credits, and still limited role of the private banks in that segment, the Monetary Council has determined an increase in the application of funds to housing loans as well as the monitoring mechanisms to ensure that banks follow those rules. We believe that in the medium-term, this system would no longer be needed, when the conditions will allow its integration in the full market system. More recently, Resolution 3.259 of January 2005 has established an adequate degree of allocation to housing finance in line with the sector capacity to produce housing units while defining the incentives to finance low income groups and low housing value.

15. FGTS (*Fundo de Garantia do Tempo de Serviço*) will remain an important source of financing for social housing probably even in a longer horizon. It accounts for more than half of total housing exposure and it is the intention of the Government to focus it to low income populations while maintaining its profitability and security. In the recent past, the FGTS have improved management procedures, notably by including explicit upfront calculation of the cost and risk to lenders of the FGTS interest rate subsidy program differentiated by income group (Resolution 460, CCFGTS). In addition, it determined that, by 2008, all FGTS resources will benefit households earning less than 10 minimum wages, increasing in 2005 the amount of credit available for households earning less than 6 MW.

16. In the short term the Government will remain committed to ensure an efficient management of the FGTS, in its double role of provident fund and source of housing finance, looking for alternatives that promote the use of these resources by a wider group of financial institutions.

Improving the Efficiency of Housing Subsidies

17. For the first time, the Government has created a program of upfront subsidies. The Social Housing Program (PSH) has been very successful. It is a transparent upfront subsidy program financed from Federal budget resources (OGU) which includes a system of public auction in the allocation of its resources with the objective of expanding the universe of participating financial institutions and which has been improved over time. Improvements recently undertaken include, inter-alia, the expansion of the universe of participating financial institutions. Other mechanisms are being studied to create a more competitive environment for alternative lenders and products by (a) establishing an improved system of pre-qualification of lenders and other agents, including local public sector companies and (b) further improvement of the technical accreditation process to reduce the risk of underbidding and possible unfair/illegal practices.

18. In the very near future, the Government will continue its efforts to rationalize and coordinate subsidy programs. The harmonization of very different programs such as the subsidies of FGTS, PAR, PSH and others should address questions related to benefits by income level, procedures to access subsidy funds, and others. As recent innovation, we mention the approval of Resolution 460 of the Board of Directors of FGTS which established a new policy of FGTS upfront subsidies with an allocation of R\$1.2 billion for 2005 with well-defined criteria for the selection of beneficiaries and inclusion of the subsidy component for existing houses.

19. The near-term agenda includes harmonization of the subsidy framework, improved targeting of both programs and Preparation of a Framework for the Monitoring and Evaluation

system of the Housing Program of the Government, with particular attention to the Subsidies component.

Reduce the Cost of Formality and Improve Supply of Urban Land

20. Constraints to an adequate land supply, especially at affordable prices for low income people continue to be a major problem in attempting to provide universal shelter. Aspects of the legislation itself, as well as registry system, impede the action of the Federal and the local governments to provide formal land on-time. The Government has championed the public consultation process and supported the drafting of a new land law, known as the Law of Territorial Responsibility, which aims to promote advances based on the new legal framework of *Estatuto da Cidade*, becoming the new regulatory framework for the production and regulation of urban settlements in Brazil.

21. Moreover, the Government has launched a program to support the development of strategic municipal plans including: (a) the development of a toolkit for the preparation of master plans within the framework of the City Statute; (b) the development of a national database of qualified consultants for providing support to municipalities in preparing participatory urban strategic plans; and (c) providing budget resources to municipalities for the development of their participatory urban plans.

22. In the medium term, the Government will launch a program of urban integration and upgrading in the metropolitan areas, where there are 90% of the informal settlements. In relation to the urban development policy, the Government will include in the National Housing Plan the policy guidelines to stimulate the use of urban land, defining the instruments and incentives for the municipal governments and other agents to reduce the administrative costs to access the formal housing market and urbanized land.

Financial Assistance Request

23. The reform agenda and the initiatives described above indicate the strong commitment of the Brazilian Government to the housing sector. In this context, the Government is grateful of the Bank's participation in the financing of the reform program described above and the supported provided through the Development Policy Lending. We wish to continue working with the Bank in future programmatic loans aimed at the sustainable and equitable growth of the Brazilian Economy and the provision of adequate shelter and housing services for most of its inhabitants.

Sincerely,

Antonio Palloco Filho
Ministro de Estado da Fazenda

Olivio Oliveira Dutra
Ministro de Estado das Cidades

Annex 13: Summary of Social and Environmental Issues

BRAZIL: Housing Sector Technical Assistance Project

The proposed TAL and associated DPL will support government policy efforts in the areas of: institutional reform and support of the national housing policy; housing finance and market reforms; low-income housing subsidy policy; and land and urban development legal and institutional frameworks. The reforms supported in this program are intended to increase access of poor and moderate income families to formal sector housing – including finished housing, urbanized land, and the upgrading of informal settlements. These are all actions that would have potential substantial positive environmental and social impacts. A rapid environmental and social assessment of the main issues addressed in the program was commissioned. This Annex presents a summary of the findings.

Environmental Legal and Institutional Framework

Brazil's legal and institutional framework concerning the environment is substantially advanced compared with many other developing countries and is adequate for regulating and reviewing the kind of localized environmental impacts that are associated with urban development and housing policies and programs.

The Federal Constitution establishes the legislative and administrative competencies regarding the natural environment, providing for (i) the Union to legislate general environmental norms of a national interest; (ii) the states to legislate norms of state level interest; and (iii) municipalities to legislate norms of local interest. States and municipalities, therefore, have competency to legislate over environmental matters, provided that such legislation is not in conflict with federal law. The Constitution further requires, in paragraph 1 of Article 225 that any public works or activities that may cause significant environmental degradation must first be subject to a study of the environmental impacts, thus laying the basis for the environmental licensing process.

Federal law 6.938 of August 31, 1981 established the National Environmental Policy (PNMA). The law was regulated by Decree No. 99.274 of June 6, 1990 (altered in 1991 and 2001). Among the preventive instruments established in the policy, and of relevance to the urban and housing sectors, are the establishment of environmental quality parameters, environmental zoning and assessment of environmental impacts. This law also defined the National Environmental System (SISNAMA), together with the institutions responsible for protecting environmental quality:

- Ministry of Environment, responsible for planning, coordinating, supervising and controlling environmental policy at the federal level;
- The Brazilian Institute of Environment and Natural Resources (IBAMA);
- State institutions responsible for controlling and overseeing activities that can cause environmental degradation; and
- Municipal organizations or institutions to control and oversee activities that can cause environmental degradation at the local level.

Environmental licensing is the most relevant instrument for environmental management at the local level. The National Environmental Council (CONAMA) edited resolutions No. 237 of December 19, 1997, altering Resolution No. 001/86, in order to more systematically treat the environmental licensing process. This defines works and activities that are subject to environmental licensing. Among those relevant to the housing and urban development area are:

land subdivision, treatment and disposition of urban solid waste, activities related to water and waste water services. While the institutional and legal frameworks are adequate, in practice there are often conflicts between jurisdictions and capacity, particularly at the local level various from place to place. These problems are prevalent in the urban realm, particularly in the approval of subdivisions, social housing projects and the regularization of informal settlements. This is an area that requires greater integration and streamlining between the legal and institutional frameworks governing urban development and environmental licensing.

Identified Potential Social/Environmental Issues

A brief assessment of the environmental and social impacts of the project identified a number of areas of potential risk and weakness as regards environmental and social impacts. The proposed project addresses these in systematic way.

Policy Area 1: Housing Policies and Institutions

Disarticulation of Programs: There is an historic disconnect between housing programs and urban development policies and instruments such as territorial planning, municipal zoning and environmental programs. This can result in construction of social housing projects in inadequate areas, such as in environmentally sensitive areas. In addition, it has been identified that there has been an historical disconnect between programs in solid waste management, urban transport, water supply and sanitation and housing. This can result in the development of housing that may prevent low-income beneficiaries of government housing programs from enjoying the full benefits of urban life, with housing often being built far from transport networks and sources of employment, for example. There have been advances, however, to mediate these potential negative social and environmental impacts, several of which are supported by the DPL. These include: creation of the Ministry of Cities, the promotion of good planning instruments as those identified in the City Statute and technical assistance to municipalities to formulate integrated planning actions through *Planos Diretores* and Municipal Housing Plans. The Technical Assistance Loan that is associated with the DPL envisages actions that would lead to the better integration of the various secretariats within the Ministry of Cities, including transport, water supply and sanitation, housing and urban development. The national housing policy, to be monitored through the National Housing Plan, articulates the need for such improved integration. There is a risk that still exists, however. The Ministry of Cities is a new ministry. Its current structure which segregates housing, urban development, sanitation and transport into separate secretariats does not facilitate the needed integration, and the DPL could take extra effort to better integrate these secretariats, especially in the reformulation of the land subdivision law which has direct impact on the urban development and housing secretariats, in particular.

Fragmentation between Levels of Government: Urban and housing policies are generally fragmented between levels of government and there is a need to bring greater harmonization among these various levels. This is partly a legacy of a long period in Brazil's history of not having defined housing and urban development policies at the national level. The lack of integration among levels of government has contributed to the low level of impact of social housing programs in Brazil, and a likely poor allocation of scarce public resources in the sector. The National Housing Policy addresses these issues by attempting to develop synergies between federal, state and local policies and to develop institutions, such as National Housing Fund, that will attempt to establish an appropriate hierarchy of policies and integration of programs.

Weakness in Resource Mobilization: A legacy of the collapse of the Brazilian National Housing Bank (BNH) has been an inability to mobilize resources for social housing and other programs

aimed at improving the living conditions of the urban poor. The government proposes to develop a National Low-Income Housing Fund that would serve as the vehicle to mobilize public (and potentially private) sources of funds for housing and urban development programs at the federal level. The policy calls for a system that would encourage the leveraging of these funds with state and local resources, and would establish clear rules for accessing the resources available in the fund. The DPL would support that process.

Policy Area 2: Housing Finance Market

The actions to be supported in the Housing Finance Market are aimed at increasing the availability of housing finance, the effectiveness of housing finance and deepening the market for housing finance, including providing incentives to make existing programs reach lower income groups. The actions supported in the DPL are expected to have positive social impacts.

Policy Area 3: Housing Subsidies

Disarticulation Between Subsidy Programs: One of the identified deficiencies in the current subsidy environment, is that there is a greater need to integrate housing programs with national income transfer and other social programs such as *Bolsa Familia*, *Bolsa Escola* and *Fome Zero*. The result of this disarticulation is continued social exclusion, as it is implied that housing programs are not well targeted to the poor. This is one of the prime areas to be developed under the DPL and the accompanying TAL. It is recommend that linking housing programs for the poor with national income transfer programs such as *Bolsa Familia*, will allow for the better targeting of such programs and ensure that the poorest are benefiting. The program aims to rationalize existing subsidy programs, develop better targeting mechanisms and develop monitoring and evaluation systems for the existing government programs.

A Lack of Information: The social assessment indicated that there is a lack of credible information regarding living conditions to determine if housing programs and subsidies will be targeting the geographic areas and families in greatest need. One of the impacts of this is that resources may not be directed to geographic regions with the highest demand for public investment, and thus continue the current trend of informal development in certain regions. Historically, for example, more public housing resources have gone to the south and southeast, at the expense of the northeast where housing deficits are considered highest. Developing proper data bases will be important to properly channel public resources to regions of greatest deficits. The development of data bases and monitoring and evaluation systems would be developed under the accompanying TAL.

Lack of Optimization of Resources: The assessment also indicated that the National Housing Policy, and its implementation through the National Housing Plan, will be ineffective if scarce public resources (both financing and subsidy) are not better optimized to allow for greater coverage of beneficiaries and to ensure that the poor are properly targeted. Without such optimization, housing deficits would continue and housing programs would not reach the poorest. The assessment suggests instruments such as proper local planning would help to optimize resources for housing programs by ensuring that they are most effectively used at the local level. The DPL would support such efforts, and more, by ensuring that subsidy programs are harmonized and that monitoring and evaluation systems would ensure that the proper segments of the market are benefiting from subsidy programs.

Policy Area 4: Land and Development

Minimum Lot Sizes: The assessment suggests that any debate on Law 6.766/79 will need to balance the elimination of minimum lot sizes, with the constitutional right to dignified housing and the potential impacts of increased density that an elimination of minimum lot sizes could induce. However, this should be viewed against the current situation in which many argue that too onerous development standards lead to increases in land prices, a lack of developed land for the poor and the resultant process of large-scale informal urban settlements. This is one of many areas of the proposed reforms to the law that will be held to public debate, led by the Ministry of Cities.

Compatibility between Legislation: Environmental legislation is considered to be further advanced than the legislation governing land subdivision. It has also been noted that conflicts are inherent in the licensing process of new subdivisions, particularly between state and municipal jurisdictions, which may disagree on what is in the purview of local authorities and what is in the purview of state authorities. This conflict is one of the main reasons for the long time it takes to approve new land subdivisions. This results in unauthorized subdivisions and perpetuates the problem of informality in urban areas. Revision of 6.766/79 will need to resolve these conflicts if it is to be effective. Likewise, any revised law must resolve the conflicts between environmental legislation and the regularization of existing informal settlements, many of which occupy environmentally protected areas. This will require careful analysis and consensus building as the law is debated in the public arena.

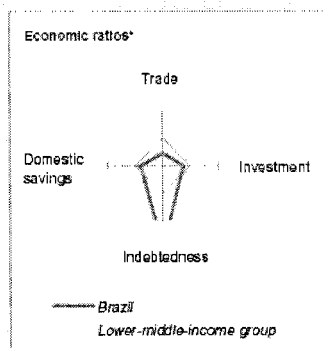
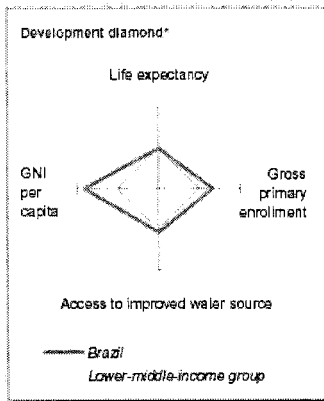
Annex 14: Country at a Glance

BRAZIL: Housing Sector Technical Assistance Project

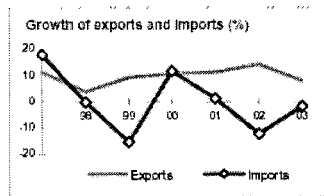
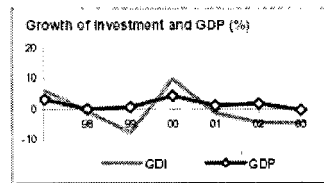
Brazil at a glance

9/15/04

POVERTY and SOCIAL	Brazil	Latin America & Carib.	Lower-middle-income		
2003					
Population, mid-year (millions)	176.6	534	2,655		
GNI per capita (Atlas method, US\$)	2,720	3,260	1,480		
GNI (Atlas method, US\$ billions)	479.5	1,741	3,934		
Average annual growth, 1997-03					
Population (%)	1.3	1.5	0.9		
Labor force (%)	1.6	2.1	1.2		
Most recent estimate (latest year available, 1997-03)					
Poverty (% of population below national poverty line)	22	..	..
Urban population (% of total population)	83	77	50		
Life expectancy at birth (years)	69	71	69		
Infant mortality (per 1,000 live births)	33	28	32		
Child malnutrition (% of children under 5)	6	..	11		
Access to an improved water source (% of population)	87	86	81		
Illiteracy (% of population age 15+)	14	11	10		
Gross primary enrollment (% of school-age population)	148	129	112		
Male	153	131	113		
Female	144	126	111		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1983	1993	2002	2003	
GDP (US\$ billions)	203.3	438.3	460.8	492.3	
Gross domestic investment/GDP	16.7	20.8	19.8	20.1	
Exports of goods and services/GDP	11.4	10.5	15.5	16.9	
Gross domestic savings/GDP	19.1	22.3	21.8	23.8	
Gross national savings/GDP	..	20.2	18.5	20.7	
Current account balance/GDP	-3.4	-0.1	-1.6	0.8	
Interest payments/GDP	3.9	0.6	2.9	2.7	
Total debt/GDP	48.5	32.9	49.6	48.0	
Total debt service/exports	54.7	24.4	70.3	65.1	
Present value of debt/GDP	52.6	..	
Present value of debt/exports	329.6	..	
	1983-93	1993-03	2002	2003	2003-07
(average annual growth)					
GDP	2.4	2.3	1.9	-0.2	3.6
GDP per capita	0.6	1.0	0.7	-1.4	2.9
Exports of goods and services	6.3	7.5	14.2	7.9	1.6



STRUCTURE of the ECONOMY	1983	1993	2002	2003
(% of GDP)				
Agriculture	10.9	7.6	5.8	5.8
Industry	44.0	41.8	20.6	19.1
Manufacturing	33.2	25.0	12.4	11.4
Services	45.1	50.8	73.5	75.1
Private consumption	71.2	60.1	58.1	56.9
General government consumption	9.7	17.7	20.1	19.3
Imports of goods and services	9.0	9.1	13.4	13.1
(average annual growth)				
Agriculture	2.4	3.9	5.0	5.5
Industry	1.2	1.8	2.6	-1.0
Manufacturing	0.0	1.4	1.4	2.7
Services	3.0	2.5	1.6	-0.2
Private consumption	0.8	1.9	-0.4	-3.3
General government consumption	6.4	2.0	1.0	11.6
Gross domestic investment	4.9	1.2	-4.3	-4.5
Imports of goods and services	5.9	4.0	-12.3	-1.9

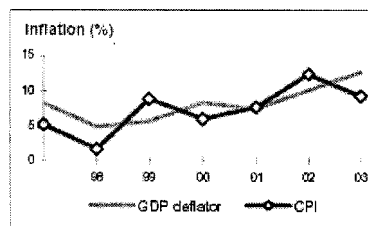


Note: 2003 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

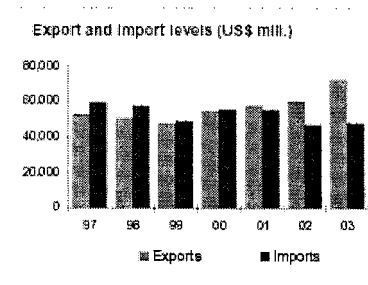
PRICES and GOVERNMENT FINANCE

	1983	1993	2002	2003
Domestic prices				
(% change)				
Consumer prices	135.0	1,928.0	12.5	9.3
Implicit GDP deflator	140.2	1,996.6	10.2	12.8
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	23.9	23.7
Current budget balance	..	..	2.8	3.0
Overall surplus/deficit	..	..	..	..



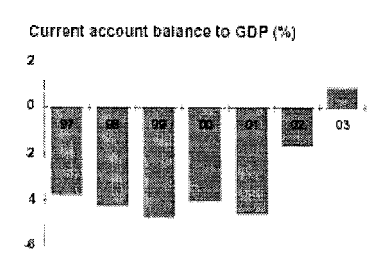
TRADE

	1983	1993	2002	2003
TRADE				
(US\$ millions)				
Total exports (fob)		38,563	60,362	73,084
Coffee		2,466	3,049	3,456
Soybeans		3,074	3,032	4,290
Manufactures		25,935	33,000	39,653
Total imports (cif)		25,256	47,237	48,260
Food		1,089	1,085	924
Fuel and energy		2,139	6,240	6,577
Capital goods		8,369	11,643	10,348
Export price index (1995=100)	80	91	88	95
Import price index (1995=100)	57	67	91	90
Terms of trade (1995=100)	140	136	97	105



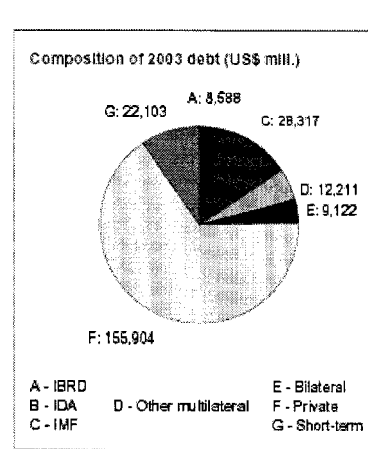
BALANCE of PAYMENTS

	1983	1993	2002	2003
BALANCE of PAYMENTS				
(US\$ millions)				
Exports of goods and services	23,611	41,616	69,913	83,567
Imports of goods and services	19,534	31,795	61,709	63,819
Resource balance	4,077	9,821	8,204	19,748
Net income	-11,022	-12,099	-18,191	-18,552
Net current transfers	108	1,686	2,390	2,867
Current account balance	-6,837	-592	-7,597	4,063
Financing items (net)	4,946	9,805	-6,003	-963
Changes in net reserves	1,891	-9,213	13,600	-3,100
Memo:				
Reserves including gold (US\$ millions)	4,563	32,211	37,823	49,296
Conversion rate (DEC. local/US\$)	2.10E-10	3.22E-2	2.9	3.1



EXTERNAL DEBT and RESOURCE FLOWS

	1983	1993	2002	2003
EXTERNAL DEBT and RESOURCE FLOWS				
(US\$ millions)				
Total debt outstanding and disbursed	98,525	144,104	228,662	236,245
IBRD	3,628	6,575	8,585	8,588
IDA	0	0	0	0
Total debt service	13,304	10,883	51,636	56,793
IBRD	507	1,858	1,518	2,010
IDA	0	0	0	0
Composition of net resource flows				
Official grants	16	59	0	
Official creditors	1,576	-1,033	916	
Private creditors	2,659	10,073	-9,541	233
Foreign direct investment	1,609	1,292	0	
Portfolio equity	0	6,570	0	
World Bank program				
Commitments	2,067	636	1,276	1,217
Disbursements	1,204	471	1,384	1,291
Principal repayments	270	1,279	1,063	1,633
Net flows	934	-808	322	-342
Interest payments	237	579	456	377
Net transfers	698	-1,387	-134	-719



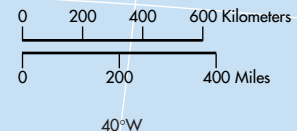
The World Bank Group: This table was prepared by country unit staff; figures may differ from other World Bank published data.

9/15/04



BRAZIL

- STATE CAPITALS
- ⊕ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- STATE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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