

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**PROCIDADES – NITERÓI  
NITERÓI URBAN DEVELOPMENT AND  
SOCIAL INCLUSION PROGRAM**

**(BR-L1055)**

**LOAN PROPOSAL**

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<b>REQUIRED</b>	
1.	Annual work plan (AWP) <a href="#">IDBDocs 37720564</a>
2.	Monitoring and evaluation plan <a href="#">IDBDocs 37720580</a>
3.	Environmental assessment report <a href="#">IDBDocs 37718041</a>
4.	Initial procurement plan <a href="#">IDBDocs 37720603</a>
<b>OPTIONAL</b>	
1.	Economic viability study <a href="#">IDBDocs 37718005</a>
2.	Program Operations Manual <a href="#">IDBDocs 37718023</a>
3.	ICAS institutional assessment report <a href="#">IDBDocs 37718067</a>
4.	Annex to the ICAS institutional assessment report <a href="#">IDBDocs 37718082</a>
5.	Niterói Master Plan <a href="#">IDBDocs 37718088</a>
6.	Transportation and Transit Master Plan (PDTT) <a href="#">IDBDocs 37718097</a>
7.	Local Low-income Housing Plan (PLHIS) <a href="#">IDBDocs 37718174</a>
8.	Program disbursement schedule <a href="#">IDBDocs 37718191</a>
9.	Plan for Removal and Relocation of Affected Units <a href="#">IDBDocs 37718208</a>

## ABBREVIATIONS

ATC	Area traffic control
AWP	Annual work plan
CCO	Centro de Controle Operacional [Operational Control Center]
CEL	Comissão Especial de Licitações [Special Bidding Commission]
CLIN	Companhia de Limpeza de Niterói [Niterói Municipal Sanitation Company]
CTM	Catastro Territorial Multifinalitário [Multipurpose Territorial Cadastre]
EGP	Escritório de Gerenciamento de Projetos [Project Management Office]
EMS	Environmental management system
EMUSA	Empresa Municipal de Moradia, Urbanização, e Saneamento [Municipal Housing, Urban Development, and Sanitation Company]
IBGE	Brazilian Institute of Geography and Statistics
ICAS	Institutional Capacity Assessment System
IRR	Internal rate of return
MEP	Monitoring and evaluation plan
NITTRANS	Niterói Transporte e Transito S.A.
OM	Operations Manual
PCR	Program completion report
PDN	Niterói Master Plan
PDTT	Plano Diretor de Transportes e Trânsito [Transportation and Transit Master Plan]
PLHIS	Plano Local de Habitação de Interesse Social [Local Low-income Housing Plan]
PMN	Prefeitura Municipal de Niterói [Municipal Government of Niterói]
PMU	Program Management Unit
PRRUA	Plano para Reposição e Remanejamento das Unidades Afetadas [Plan for Removal and Relocation of Affected Units]
SEPLAG	Municipal Department of Planning, Management Modernization, and Control
SEMPAS	Department of Social Participation
SMARHS	Municipal Department of Environment, Water Resources, and Sustainability
SMF	Municipal Department of Finance
SMHRF	Municipal Department of Housing and Property Regularization
SMU	Municipal Department of Urban Development and Mobility

## PROJECT SUMMARY

### BRAZIL PROCIDADES – NITERÓI NITERÓI URBAN DEVELOPMENT AND SOCIAL INCLUSION PROGRAM (BR-L1055)

Financial Terms and Conditions					
<b>Borrower:</b> Município of Niterói			Amortization period:	25 years	
<b>Guarantor:</b> Federative Republic of Brazil			Grace period:	5 years	
<b>Executing agency:</b> Município of Niterói			Credit fee:	*	
Source	Amount	%	Interest rate:	LIBOR-based	
			Disbursement period:	4 years	
<b>IDB:</b> (Ordinary Capital)	26.47 million	60%	Inspection and supervision fee:	0%	
<b>Local:</b>	17.66 million	40%	Conversion to Brazilian reais:	LCF**	
<b>Total:</b>	44.13 million	100%	Currency of approval:	U.S. dollars from the OC Single Currency Facility	
Project at a Glance					
<b>Objective and description:</b> The general objective is to enhance the quality of life of residents of the Município of Niterói by executing urban renewal and social projects. The specific objectives include: (i) improve city services and environmental sanitation conditions in low-income neighborhoods and expand the network of social services and facilities; (ii) improve mobility, connectivity, and safety conditions in the city's transportation system; (iii) support the revitalization of decaying areas in the city center; and (iv) strengthen the institutional capacity of the Municipal Government of Niterói in management and planning.					
<b>Special contractual conditions precedent to the first disbursement:</b> (i) Signature and entry into force of the legal instruments between the Município of Niterói and ENUSA, NITTRANS, and CLIN, on the terms previously agreed upon with the Bank (see paragraph 3.2); (ii) publication of the decree establishing the Program Management Unit (PMU) and appointing its professional staff (see paragraph 3.3); (iii) publication of the decree establishing the Special Bidding Commission (CEL) and appointing its members (see paragraph 3.4); (iv) entry into force of the program Operations Manual, on the terms previously agreed upon with the Bank (see paragraph 3.5); and (v) signature and entry into force of an agreement between the Município of Niterói and Aguas de Niterói for program activities, on the terms previously agreed upon with the Bank( see paragraph 3.6).					
<b>Special contractual execution conditions:</b> (i) Prior to execution of component 2, preparation and delivery of the technical and economic viability studies, with respective indicators, on the terms previously agreed upon with the Bank (see paragraph 3.7); and (ii) existence of the updated Plan for Removal and Relocation of Affected Units (PRRUA) (see paragraph 1.22).					
<b>Special contractual execution conditions to be met within 180 days after signature of the loan contract:</b> (i) Contracting of the firm to support program management (see paragraph 3.3); (ii) implementation of the financial information system (see paragraph 3.14); and (iii) evidence that the physical/financial management system has been implemented (see paragraph 3.15).					
<b>Project consistent with country strategy:</b> Yes [X]                      No [   ]					
<b>Waiver of Bank policy:</b> The borrower has also requested a waiver of the Bank's policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1/Operational Policy OP-507), in order to recognize up to US\$2 million in expenditures incurred by the borrower since 1 June 2007 as part of the local contribution to the program (see paragraph 2.3).					
<b>Project qualifies as:</b>		SEQ [X]	PTI [X]	Sector [X]	Geographic [   ]                      Headcount [   ]

\* The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

\*\* The individual operations approved under the PROCIDADES lending facility (document PR-3086-4) are financed with resources from the Single Currency Facility of the Bank's Ordinary Capital, with the option of converting disbursements and outstanding loan balances under the Local Currency Facility (LCF), in accordance with the terms previously approved by the Board of Executive Directors pursuant to Resolution DE-112/06, rather than the terms of the Flexible Financing Facility (document FN-655-1), established subsequently. As with a global credit program, the Bank, in discussions with the country authorities of Brazil, has developed a design for individual operations under the facility that allows the terms and conditions for disbursements in local currency to be standardized for all participating municípios (see document PR-3086-4, paragraph 5.17).

## **I. DESCRIPTION OF PROBLEMS AND PROGRAM OBJECTIVES**

### **A. Background**

- 1.1 A previous version of this operation was approved by the Bank's Board of Executive Directors in December 2007. However, due to difficulties of a legal nature, the mayor's office could not sign the loan contract at that time, resulting in cancellation of the loan in June 2011. In January 2013, the new mayor elect made a formal request to the Bank to resume negotiations for signature of the loan contract with the same objectives and amount as the original contract. The project as presented is an update of the document approved in 2007, revised to reflect the requirements of the Bank's current policies with adjustments to the amounts of the transportation and community development components. Some works were begun in 2007 in the city center and in September 2012 in one of the informal neighborhoods, or favelas, targeted by the program (see Annex IV). These activities were conducted with own resources, reflecting the high priority still put on these works by the municipal authorities.
- 1.2 The Município of Niterói, located in the state of Rio de Janeiro on the eastern shore of Guanabara Bay, is part of the Rio de Janeiro metropolitan region and forms a developed urban area together with the adjoining municípios of São Gonçalo and Maricá. The município covers an area of 133.9 square kilometers and has a population of 487,562.<sup>1</sup> Its economy is based on trade and services, which account for 70.74% of municipal GDP. The city is a dynamic economic hub with good services infrastructure. It employs a significant part of the population of the neighboring municípios and serves as a bedroom community for many working in the city of Rio de Janeiro.
- 1.3 The município's economic and social indicators exceed the state average. Monthly household per capita income is R\$1,700 (compared to R\$876 for the state);<sup>2</sup> and 97.7% of the population over 15 years is literate (compared to 95.7% for the state).<sup>3</sup> Sanitation indicators are the best in the metropolitan area, with 100% and 92.7% coverage for water and sanitary sewer services, respectively, in formally settled areas,<sup>4</sup> and 99.96% of households have electric power connections.<sup>5</sup> With a human development index (HDI) of 0.886,<sup>6</sup> Niterói ranks highest among municípios in the state of Rio de Janeiro and the third highest in the country.

### **B. Main problems and challenges**

- 1.4 Despite these positive indicators, the growth of the urban population in recent decades has led to a process of uneven development that has impacted different

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<sup>1</sup> 2010 Census of the Brazilian Institute of Geography and Statistics (IBGE).

<sup>2</sup> IBGE Census 2010.

<sup>3</sup> IBGE Census 2010.

<sup>4</sup> National Sanitation Information System: Diagnostic Assessment of Water and Sewer Services 2010.

<sup>5</sup> IBGE Census 2010.

<sup>6</sup> In 2003, reference Census 2010.

parts of the município and the quality of life of their inhabitants in unequal fashion. In the last two decades Niterói has experienced considerable urban and social change in the past two decades, with significant growth in areas with middle- and high-income populations. This growth has required the expansion of urban infrastructure and services, while more built-up areas have been abandoned (particularly in the city center), leading to deterioration in public areas and green space. Informal neighborhoods, or favelas, have also sprung up, typically inhabited by the low-income population. These urban transformations and population growth have affected mobility within the city, considerably lengthening travel times in the urban area. The effects of these changes are described in the following paragraphs.

- 1.5 **Informal settlements.** In Niterói, the proportion of people living in favelas is 16.4% (79,623 people), exceeding the percentages for the metropolitan region of the city Rio de Janeiro (14.5%) and the state of Rio (13.8%).<sup>7</sup>
- 1.6 In 2010, the city had 77 informal settlements, home to around 80,000 people. Living conditions in the favelas contrast sharply with the rest of the city. Whereas 27.48% of private households in Niterói have per capita incomes below the minimum wage, that figure in the favelas is 68.01%. Street paving is nonexistent or inadequate in 96% of communities. Land holding is unregulated, and social and urban facilities are scarce.<sup>8</sup>
- 1.7 In terms of basic sanitation, although Niterói has 100% water service coverage in the regularized areas, the statistics for the favelas are very different. In 57% of the favelas, water supply is clandestine or unregulated. In terms of sanitary sewers, discharge is uncontrolled or improper in 98% of the favelas.<sup>9</sup>
- 1.8 Niterói's worst housing problems are seen in the favelas. The three characteristics of greatest concern are: (i) illegal status of land occupancy; (ii) unsuitable location, often in at-risk or environmentally protected areas; and (iii) makeshift infrastructure. The Prefeitura Municipal de Niterói [Municipal Government of Niterói] (PMN) has made efforts to reduce these shortcomings, notably its involvement in the IDB's Habitar Brasil Program (loan 1126/OC-BR) with redevelopment of the Morro da Cocada favela, demonstrating its ability to conduct comprehensive urban development projects.
- 1.9 **Urban mobility.** Under pressure from the growing population of middle- and high-income households in Niterói, the number of vehicles on the road has been increasing rapidly. Between 2002 and 2012 the vehicle fleet expanded from 147,882 to 233,293 vehicles, representing a mean annual growth rate of 4.7%, while population grew annually at only 0.56%. In 2012, Niterói had 349 vehicles per 1,000 inhabitants, compared to the national average of 231. The result has been

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<sup>7</sup> Local Low-income Housing Plan 2012.

<sup>8</sup> Local Low-income Housing Plan 2012.

<sup>9</sup> Local Low-income Housing Plan 2012

increased congestion during peak traffic hours, causing delays and raising operating costs.

- 1.10 **Public spaces in the central area.** The município's uneven development and shifting urban dynamics have also brought about changes in the central city area, which has lost population and has seen its public spaces decay. Over a period of 14 years (between 1991 and 2005), the city center population declined by more than 17%. Niterói has nearly 50 square kilometers of green space, only 0.07 of which is located in the central area. The central green spaces have either been abandoned or are underused, although at least two of them are officially designated as urban parks by municipal law.<sup>10</sup>
- 1.11 **Institutional aspects.** Until 1974, Niterói was the capital of the state and it had a sound working structure. Since then, it has lost much of its institutional capacity for management and planning, as a result of discontinuity in the training of municipal personnel and the obsolescence of management systems and tools. This is reflected in the município's poor showing in the fiscal management index published by the Federation of Industry of the State of Rio De Janeiro (FIRJAN),<sup>11</sup> where Niterói ranks 259th among the approximately 5,000 Brazilian municípios.
- 1.12 For this reason, it is important to strengthen the município's technical and administrative capacity by improving its planning structure, modernizing its information systems, and training its employees, in order to restore its management capabilities to their former level.

### C. The município's strategy

- 1.13 The municipal government has planning instruments that are well-defined and aligned: (i) at the general level is the Niterói Master Plan (PDN); and (ii) at the sector level are the Transportation and Transit Master Plan (PDTT) and the Local Low-income Housing Plan (PLHIS). The proposed operation will contribute to implementing the policies contained in those plans.
- 1.14 The PDN sets strategic objectives that are reflected in this operation. The plan addresses the following needs, among others: (i) to reconcile land use and occupancy with protection of the environment; (ii) to make urban renewal and land regularization viable in low-income areas; (iii) to establish a system of urban planning; and (iv) to develop the public environmental assets of the central area.
- 1.15 This program is compatible with such objectives, as it will support the provision of infrastructure and public services to the município's informal neighborhoods.
- 1.16 Another priority of the PDN is to implement initiatives to reverse the deterioration of public spaces in the central area, with emphasis on reclaiming them for the local population. It also seeks to improve the urban planning system, with a focus on

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<sup>10</sup> Municipal Law 1967/02: Morro das Águas (where the "Water Park" is located) and Jardim São João.

<sup>11</sup> This index is national in scope and comprises five indicators: (i) municipal revenues; (ii) personnel expenditure; (iii) investment; (iv) liquidity; and (v) cost of debt.



structuring an integrated planning and management system and on personnel training.

- 1.17 In urban mobility, the PDTT calls for expansion and integration of the different modes of transportation. The objective is to improve mobility and accessibility in the city through various means, including expansion of the traffic signals system and the use of “intelligent traffic lights” with area traffic control (ATC).

#### **D. Evidence and lessons learned**

- 1.18 The program takes a comprehensive approach, with multiple components and very specific objectives that, together, are designed to improve the living conditions for the municipal population in general, while concentrating its impact on the most vulnerable neighborhoods. The Bank’s experience with neighborhood improvement includes more than 11 loans in eight countries since 1993, three of them in Brazil, approved in 1996, 2007, and 2012. These are in addition to 18 comprehensive urban development programs under the PROCIDADES facility. Evidence based on quasi-experimental assessments indicates that neighborhood improvement programs are successful in expanding the coverage of basic services for target population groups, and that this impact is most pronounced for the poorest groups.<sup>12</sup> It was also found that the dissemination of impacts, while difficult to measure, goes beyond the direct target areas,<sup>13</sup> and that those neighborhood improvement programs that include institutional strengthening and technical assistance components achieve outcome indicators that are between 4% and 20% higher.<sup>14</sup> In this respect, the program indicators are consistent with the benefits expected from each component. These include (i) improved living conditions, as a result of better coverage of water and sewer services; (ii) higher property values, and thus an increase in family assets, as a result of better public services in the neighborhood; (iii) reduced travel times and costs within the city; and (iv) more visitors to the city center, resulting in greater capacity to attract tourists and businesses. With respect to the urban mobility component, international experience has demonstrated the operational and economic benefits of installing intelligent traffic light systems with ATC.<sup>15</sup> There have been successful experiences in this regard in several Brazilian cities, including São Paulo, Curitiba, and Fortaleza. Component 3 incorporates the

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<sup>12</sup> See Soares, F. and Y. Soares, 2005. *The socio-economic impact of favela-barrio: What do the data say?* Office of Evaluation and Oversight (OVE), Inter-American Development Bank, Washington, D.C.

<sup>13</sup> See: Field, E. and M. Kremer, 2005. *Impact evaluation for slum upgrading interventions*. Working paper 2008-0029, Weatherhead Center for International Affairs, Harvard University.

<sup>14</sup> Marcano, L. and I. Ruprah, 2009. “Does technical assistance matter? An impact evaluation approach to estimate its value added.” *The Journal of Development Effectiveness*, Taylor and Francis Journals, vol. 1(4), pages 507-528.

<sup>15</sup> U.S. National Cooperative Highway Research Program, [\*Adaptive traffic control systems: Domestic and foreign state of practice\*](#), NCHRP Synthesis 403, Washington, D.C., 2010.

most recent trends in urban development sustainability, which suggest that cities should recycle territory as an alternative to continued unnecessary expansion.<sup>16</sup>

- 1.19 This program is part of the PROCIDADES lending facility (document PR-3086-4). Under PROCIDADES, the most important value-added contributions for the municípios are: (i) hands-on technical monitoring by the Bank's Country Office team; and (ii) strengthened planning capabilities, resulting from the joint design of programs and prioritization of investments with the Bank team, as well as municipal adoption of project management and evaluation tools.

**E. Strategic alignment and intervention strategy**

- 1.20 The program's priorities are aligned with the Bank's country strategy with Brazil (document GN-2662-1), which seeks to support the following objectives: (i) improve living conditions and efficiency in the cities; (ii) increase capacities for urban management and the provision of municipal services/infrastructure in medium-sized cities; (iii) improve the urban habitat of favelas; and (iv) improve urban transportation in medium-sized cities. The program will also contribute to meeting the targets of the Ninth General Capital Increase (GCI-9), as it will support: (i) implementation of urban and transportation infrastructure; (ii) institution-strengthening at the subnational level; and (iii) environmental protection.

**F. Objectives, components, costs, impacts, and expected outcomes**

- 1.21 **Objectives.** The general objective is to enhance the quality of life of residents of the Município of Niterói by executing urban renewal and social projects. The specific objectives include: (i) improve city services and environmental sanitation conditions in low-income neighborhoods and expand the network of social services and facilities; (ii) improve mobility and connectivity conditions in the city's transportation system; (iii) support the revitalization of decaying areas in the city center; and (iv) strengthen the institutional capacity of the Municipal Government of Niterói in management and planning. The program will reach the entire population living in the urban area (487,562 inhabitants). It has the following components:
- 1.22 **Component 1. Community development and social inclusion (US\$30.19 million).** This component will finance comprehensive neighborhood improvement projects. These may include urban development activities (basic sanitation and drainage infrastructure, paving, public lighting etc.), social services, regularization of land ownership,<sup>17</sup> and family resettlement. Resettlement of families, when necessary, will be done in accordance with the policies established in the Plan for Removal and Relocation of Affected Units (PRRUA) (see optional electronic

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<sup>16</sup> Leite, Carlos. *Cidades sustentáveis, cidades inteligentes*. [Sustainable cities, smart cities]. Porto Alegre: Bookman, 2012.

<sup>17</sup> The complete list of works, goods, and services eligible for financing, as well as the stages of the land tenure regularization process, are found in the program Operations Manual.

- link 9), prepared by the município and approved by the Bank. The update of the PRRUA is a condition precedent to the start of any works that might result in the need for involuntary resettlement.
- 1.23 This operation will target four favelas (Vila Ipiranga, Capim Melado, São João, and Igrejinha), benefiting 3,469 families. The program beneficiary areas were selected from among those in the “Favelas Matrix” using criteria specified in the program Operations Manual (see optional electronic link 2). Works are under way in the program favelas of Capim Melado and Vila Ipiranga. The first works, begun in September 2012, are 2% complete; and the second, begun in November 2010, are 38% complete. The expenditures on both works are to be recognized as part of the local counterpart (see paragraph 2.2 and 2.3).
- 1.24 **Component 2. Urban mobility (US\$5.63 million).** This component will finance the implementation of an integrated system of “smart traffic signals” with ATC, allowing for automatic real-time adjustment of signal duration and signal synchronization. The investment includes construction of an Operational Control Center (CCO), which will facilitate the coordination<sup>18</sup> of 10 areas around the city. Six areas already have ATC signal systems in partial operation. This component will make the systems fully operational in those six areas and implement it in the other four, extending traffic control to the entire city and standardizing operation of the signaling systems in all areas.
- 1.25 **Component 3. Revitalization of downtown areas (US\$2.94 million).** This component will finance the redevelopment of public squares, gardens, and parks through tree planting, street and park furniture, street lighting, and adaptations to make these areas accessible to persons with disabilities.
- 1.26 Improvements have already been made in the public squares of Praça Leoni Ramos and Jardim São João, using the município’s own resources. These interventions are an integral part of the downtown revitalization planned under this component. Works in Praça Leoni Ramos began in June 2007 and were completed in March 2009. Works in Jardim São João started in December 2008 and ended in May 2009. The expenditures associated with those interventions will be considered as advance counterpart outlays for this operation, in accordance with paragraph 2.3.
- 1.27 **Component 4. Institution-strengthening (US\$2.17 million).** This component will finance: (i) training courses for municipal staff; (ii) purchase of equipment; and

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<sup>18</sup> There is evidence of an inverse relationship between congestion and road safety. Studies suggest that the likelihood of an accident increases with higher speed variability. Golob, Recker, and Pavlis (2008) found such a relationship using a model to relate traffic flow parameters with accident type, severity, location, and number of vehicles involved. Other studies with similar findings are: Lee, C., M. Abdel-Aty, and L. Hsia (2006). “Potential real-time indicators of sideswipe crashes on freeways.” In: *Transportation Research Record: Journal of the Transportation Research Board*, no. 1953, pp. 41-49; and Oh, C. et al. (2001). “Real-time estimation of freeway accident likelihood.” In: *Proceedings of the 80th TRB Annual Meeting 2001*. Washington, D.C., Transportation Research Board TRB.

(iii) structuring of the georeferenced information system and the Multipurpose Territorial Cadastre (CTM)<sup>19</sup> of Niterói.

- 1.28 In terms of training and equipment, the program will provide operating tools for activities relating to municipal, project, fiscal, and environmental management. Its beneficiaries will be employees of the agencies directly involved with the program.<sup>20</sup> The Municipal Department of Environment, Water Resources, and Sustainability (SMARHS) will also receive support in regulating and consolidating the municipal environmental code and the municipal licensing system for polluting activities, as well as equipment and staff training, as established in the Environmental Management System (EMS) that is part of the Environmental Assessment Report.
- 1.29 With respect to the CTM, the program calls for the systematization of new image databases and the compilation, restructuring, and incorporation of existing databases from the Municipal Department of Urban Development and Mobility (SMU), the Municipal Department of Finance (SMF), and SMARHS with emphasis on updating the cadastre and systematizing the records relating to commercial and residential areas, the urban property tax roll, environment, and at-risk areas.
- 1.30 **Program management (US\$3.03 million).** The program will also finance activities relating to management of the operation, such as consulting services to support: (i) program evaluation; (ii) management; and (iii) works supervision.

#### **G. Cost and financing**

- 1.31 The total cost of the proposed program is US\$44.13 million, broken down by source and investment category as shown in Table 1.1.

#### **H. Results matrix and indicators**

- 1.32 The following indicators for the program were defined jointly with the Municipal Government of Niterói: (i) market value of properties located in the program target areas; (ii) percentage of families served by regularization of land tenure; (iii) reduction in fuel costs of the Niterói vehicle fleet; (iv) reduced travel time on the city's main thoroughfare; (v) number of visitors to downtown parks; and (vi) built-up area recorded in the município's urban property tax roll. Further details on the indicators and their baseline values and annual targets are given in the Results Matrix (see Annex II) and in the Monitoring and Evaluation Plan (see required electronic link 2).

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<sup>19</sup> Pursuant to Ministerial Order 511 of 7 December 2009, which establishes policies for the creation, institutionalization, and update of the CTM in Brazilian municípios.

<sup>20</sup> SEPLAG, SMHRF, SMU, SMF, SMARHS, EMUSA, NITTRANS, and UGP. Other agencies may also benefit, as needs are identified.

**Table 1.1. Cost and Financing (US\$000)**

<b>Categories</b>	<b>IDB/OC</b>	<b>Local</b>	<b>Total</b>	<b>%</b>
<b>I. Engineering and administration</b>				
1.1 PMU, works supervision, monitoring and evaluation	2,485	545	3,030	6.9%
1.2 Audit	145	32	177	0.4%
<b>II. Direct costs</b>				
2.1 Community development	14,000	16,192	30,192	68.4%
2.2 Urban mobility	5,630	0	5,630	12.8%
2.3 Revitalization of downtown areas	2,335	600	2,935	6.7%
2.4 Institution-strengthening	1,875	291	2,166	4.8%
<b>Total</b>	<b>26,470</b>	<b>17,660</b>	<b>44,130</b>	<b>100%</b>
<b>%</b>	<b>60%</b>	<b>40%</b>	<b>100%</b>	

## **II. FINANCING STRUCTURE AND MAIN RISKS**

### **A. Financing instruments**

- 2.1 **Program resources and disbursement schedule.** The program has a total cost of US\$44.13 million. Of that amount, US\$26.47 million will be from the Bank. The execution period is four years, running from the effective date of the contract, with the following disbursement schedule:

**Table 2.1. Disbursement Schedule (US\$000)**

<b>Source of financing</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>TOTAL</b>
<b>IDB</b>	2,655	7,348	9,007	7,460	26,470
<b>Municipal Government of Niterói</b>	5,435	5,435	4,843	1,946	17,660
<b>TOTAL</b>	8,091	12,783	13,850	9,406	44,130
<b>%</b>	18.3%	29.0%	31.4%	21.3%	100%

- 2.2 **Recognition of expenditures.** No retroactive financing is envisaged. Recognition of expenditures is envisaged for a total amount of US\$3.7 million. Of this total, the Bank may recognize up to US\$1.7 million in eligible expenditures on works incurred by the borrower prior to the loan approval date as part of the local contribution, provided that they met requirements substantially similar to those established in the loan contract. Such expenditures must have been incurred on or after 1 January 2012, but in no case more than 18 months prior to the loan approval date.
- 2.3 **Waiver of Bank policy.** For the remainder of the US\$3.7 million, the borrower has requested a waiver of the Bank's policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1/Operational Policy OP-507), in order to recognize up to US\$2 million in expenditures incurred by the borrower since 1 June 2007 as part of the local contribution to the program. These expenditures are US\$600,000 for the construction of public squares (see paragraph 1.26) and US\$1.4 million for urban development of the Vila Ipiranga

favela, which are an integral part of program interventions. The contracting procedures for these works were in accordance with local law. In addition to meeting the program eligibility criteria, expenditures may be recognized only if accompanied by contracting documentation, corresponding tax invoices, or other documents attesting to the outlays made specifically for these works. The procedures used for the selection and contracting of projects must have adhered to the criteria of eligibility, effectiveness, and economy, and their contacting must have followed the rules established in local legislation. The expenditures will be recognized to the extent that they comply with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9).

- 2.4 In addition, recognition of expenditures under Component 1 will be contingent upon the presentation of evidence that the conditions established in the Plan for Removal and Relocation of Affected Units (PRRUA) for family resettlement were satisfied, consistent with the rules of the Environmental Management System (EMS) for this program.

**B. Environmental and social safeguard risks**

- 2.5 The environmental assessment confirmed that the expected environmental impacts are insignificant, short-term, and temporary. The program was therefore classified as category "B" under the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). The temporary impacts were identified during program preparation, and mitigating measures proposed that will be an integral part of the EMS to be implemented throughout program execution. The environmental permits will be issued by the relevant agency. The State Environment Institute (INEA) is authorized to enter into agreements with municipal agencies to decentralize the issuance of environmental permits. Thus, in order for the SMARHS to issue permits for program works where the impacts are limited to the município, it must produce the document confirming the agreement. For cases that require involuntary resettlement of families, the program has a PRRUA, which will be updated prior to start of any works that require involuntary resettlement. A public consultation was held with the affected parties. The executing agency will send documentation on that public consultation to the Bank.

**C. Institutional capacity and fiduciary risks**

- 2.6 **Institutional capacity assessment.** The institutional capacity of the Prefeitura Municipal de Niterói [Municipal Government of Niterói] (PMN) was evaluated using the Bank's Institutional Capacity Assessment System (ICAS). That assessment found that the PMN has a medium level of institutional capacity to manage the activities involved. The PMN will need Bank support to train the staff of the Program Management Unit (PMU) in Bank policies, rules, and procedures.
- 2.7 **Fiduciary risks.** The assessment identified the risks related to program execution. In the fiduciary area, the following risks were identified: (i) execution delays, due to unfamiliarity with procurement and financial management policies and procedures; and (ii) possible slippage in the planned disbursement schedule. The

main mitigation actions are: (i) creation of the PMU, with the appointment of personnel dedicated solely to the program; (ii) engagement of a firm to support the PMU in program management and administration; (iii) creation of a Special Bidding Commission within the PMU; and (iv) implementation of the Município of Niterói's finance system ("e-Cidade") for record-keeping and generating the reports required by the Bank.

**D. Other key issues**

- 2.8 **Technical viability.** The works to be financed by the program are not considered complex from the engineering standpoint. They involve technologies widely used in the delivery of urban development services in general, urban transportation systems, storm drainage, water supply, and wastewater collection. Technologies and materials appropriate to the region will be used, with the attendant economic and construction advantages.
- 2.9 **Economic viability.** A socioeconomic evaluation was done for each of the investments in the sample of projects. The evaluation was based on a comparison of the benefits and economic costs in conditions with and without the project. The benefits of Component 1 were calculated on the basis of property value appreciation estimates. The costs considered were incremental investment costs, operation and maintenance costs, contingencies, and social actions (resettlement), valued at efficiency prices.
- 2.10 The benefits of Component 1 projects were estimated at R\$8.5 million. The internal rate of return (IRR) was 29.3%. The benefit/cost ratio was calculated at 1.36. Under Component 3, the "Water Park" project yielded an IRR of 15.77%, net benefit of R\$416,000, and a benefit/cost ratio of 1.21. A cost-efficiency analysis was done for the public squares under the program, yielding an investment cost per square meter of R\$148.78. This cost is comparable to similar investments in public squares in the município. The results demonstrate that the program is viable (see optional electronic link 1, "Economic viability study").

**III. PROGRAM IMPLEMENTATION AND MANAGEMENT MODEL**

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

- 3.1 The borrower will be the Município of Niterói. The Federative Republic of Brazil will be guarantor of the borrower's financial obligations under the loan contract. The executing agency will be the Município of Niterói, represented by its Project Management Office (EGP), to which the Program Management Unit (PMU) will report.

**B. Program execution and administration**

**1. Program execution unit**

- 3.2 The Município of Niterói will be the executing agency for the program, and will establish a PMU, reporting directly to the EGP of the Prefeitura Municipal de

- Niterói [Municipal Government of Niterói] (PMN). The PMU will conduct its activities in coordination with other municipal government agencies, which will provide technical support for program execution: (i) Municipal Department of Planning, Management Modernization, and Control (SEPLAG); (ii) Municipal Department of Housing and Property Regularization (SMHRF); (iii) Municipal Department of Urban Development and Mobility (SMU); (iv) Municipal Department of Environment, Water Resources, and Sustainability (SMARHS); (v) Municipal Department of Finance (SMF); and (vi) Department of Social Participation (SEMPAS). Technical support will also be provided by the Municipal Housing, Urban Development, and Sanitation Company (EMUSA), Niterói Transporte e Transito S.A. (NITTRANS), and the Niterói Municipal Sanitation Company (CLIN). **Signature and entry into force of the legal instruments between the Município of Niterói and EMUSA, NITTRANS, and CLIN, on the terms agreed upon with the Bank, will be a condition precedent to the first disbursement.**
- 3.3 The PMU will have the following professional staff: (i) a general coordinator; (ii) an administrative and financial coordinator; (iii) a technical coordinator (for activities and projects related to the components); (iv) a deputy coordinator for works, reporting to the technical coordinator; (v) a deputy coordinator for other activities, also responsible for monitoring and evaluation; (vi) a deputy coordinator of financial management; (vii) a deputy coordinator of procurement; (viii) an environmental specialist; and (ix) a social assistance specialist. In addition to this team, a management firm will be contracted to assist the PMU in managing activities. **Publication of the decree establishing the PMU and appointing its professional staff will be a condition precedent to the first disbursement.** Contracting of the firm to support program management will be a special execution condition to be met within 180 days after signature of the loan contract.
- 3.4 The PMU will be responsible for all competitive bidding processes under the program. A Special Bidding Commission (CEL) will therefore be established within its organizational structure, responsible for conducting all competitive bidding in accordance with existing laws and Bank policies. **Publication of the decree establishing the CEL and appointing its members will be a condition precedent to the first disbursement.**
- 2. Arrangements for component execution**
- 3.5 **Execution of Component 1. Community development and social inclusion.** A program Operations Manual was prepared that establishes eligibility and prioritization criteria for selecting communities to be served and identifies the eligible works and services, as well as the procedures and organizational structure for execution of this component. A PRRUA was also prepared that establishes rules and procedures for the relocation and resettlement of families and economic activities, consistent with Operational Policy OP-710. **Entry into force of the program Operations Manual, on the terms previously agreed upon with the Bank, will be a condition precedent to the first disbursement.**



- 3.6 Competitive bidding for works will be conducted by the CEL, and EMUSA will supervise execution with support from a firm engaged for such purpose. The company Aguas de Niterói, a private concessionaire of water and sewer services, will be responsible for building these works in the program communities, assuming all costs, as well as operation and maintenance of the systems. CLIN will be responsible for waste collection and street cleaning in the beneficiary communities. **Signature and entry into force of an agreement between the Município of Niterói and Aguas de Niterói for program activities, on the terms previously agreed upon with the Bank, will be a condition precedent to the first disbursement.**
- 3.7 **Execution of Component 2. Urban mobility.** The technical and economic studies for the area traffic control (ATC) system and the Operational Control Center (CCO) will be detailed enough to confirm their technical and economic feasibility. As a condition precedent to the start of execution of this component, the technical and economic viability studies, along with the respective indicators to update the Results Matrix, will be submitted, to the Bank's satisfaction. In addition, prior to competitive bidding for the ATC signaling system and the CCO, the respective final designs will be submitted to the Bank for its no objection. The município will rely on the SMU for supervision and monitoring of activities under this component, with support from NITTRANS.
- 3.8 **Execution of Component 3. Revitalization of downtown areas.** A final design for the "Water Park" will be developed for subsequent competitive bidding and execution. The works on the public squares of Praça Leoni Ramos and Jardim São João were completed in 2009. The município will rely on EMUSA for supervision of this component, with support from the firm engaged for such purpose.
- 3.9 **Execution of Component 4. Institution-strengthening.** The CEL, with technical support from SEPLAG and the EGP, will conduct competitive bidding for goods and services, purchase hardware and software, and contract the necessary consulting services. The município will rely on ESPLAG, SMF, and the EGP for supervision of this component.
- 3.10 **Sustainability.** The borrower agrees to take all measures necessary to ensure that the works built under this program are maintained in accordance with accepted technical standards, and to deliver a maintenance report and maintenance plan to the Bank annually in the first quarter of each year for up to three years after the last disbursement. The public squares already completed in the city center (see paragraph 1.26) are in good condition, which demonstrates the município's maintenance capability.

## **C. Procurement**

- 3.11 The procurement of works, goods and related services, and consulting services will be subject to the Bank's competitive bidding policies and procedures, in accordance with the "Policies for the procurement of goods and works financed by the IDB" (document GN-2349-9) and the "Policies for the selection and contracting of

consultants financed by the IDB” (document GN-2350-9). The works, goods, and services to be procured are listed in the procurement plan (see required electronic link 4), in accordance with the Fiduciary Agreements and Requirements.

**D. Advance of funds**

- 3.12 The program will operate with resources advanced by the Bank to satisfy the project’s actual liquidity needs. This will require submission of a disbursement request, along with a financial plan reflecting the need for funds for the period in question. The PMU will provide the Bank with an initial financial plan containing the disbursement schedule for the entire execution period. This initial plan will give rise to the first disbursement request, reflecting the first six months of execution, as a basis for planning the first advance of funds. Subsequent advances will require accountability for at least 80% of previously advanced funds, and a new financial plan for the period in question.

**E. Program supervision**

- 3.13 Based on the results of the risk analysis, the program has been rated as moderate risk. Supervision for operations with this type of risk calls for external auditors to perform ex post review of procurement procedures and disbursements. For operations, and to ensure that Bank policies are internalized, it was determined that procurements financed with the loan proceeds will be subject to prior review during the first 12 months of execution. Subsequently, the Bank will conduct another risk analysis and, depending on the results, may adopt the ex post review modality.

**F. Program audit**

- 3.14 A firm of independent auditors will be engaged to audit the accounting, financial, technical, and socioenvironmental aspects of the program. The PMN will ensure that the PMU has a financial information system capable of documenting all records, transactions, and advances under the components, including technical and financial data on contracts, works, disbursements, competitive bidding processes, and program execution. That system must have the Bank’s prior approval. Implementation of the financial information system, in accordance with Bank procedures, will be a special execution condition and must occur within 180 days after signature of the loan contract.

**G. Monitoring and evaluation arrangements**

- 3.15 **Monitoring system.** It was agreed with the PMU that the physical/financial timetable, the annual work plan (see optional electronic link 1), the procurement plan, and the Results Matrix would be used to monitor program execution. The PMU will also prepare six-monthly program status reports based on the Results Matrix indicators, including the information required by the Bank to complete the program monitoring report (PMR). The PMU will have a physical/financial management system for the program that contains the information required for program monitoring and supervision. Evidence that the physical/financial management system has been implemented will be a special execution condition

and must be provided to the Bank within 180 days after signature of the loan contract.

- 3.16 **Evaluation instruments.** Resources of R\$300,000 (approximately US\$150,000) has been earmarked for program evaluation, in three stages: (i) research of information for the baseline; (ii) midterm evaluation; and (iii) impact evaluation, including the content of the program completion report (PCR).
- 3.17 **Evaluation of impact and outcomes.** The evaluation methodology is quasi-experimental, using the double difference method. This involves comparing changes in the results indicators before and after the intervention, such as the market value of properties located in the four program communities, reduction in travel times during rush hour, and average fuel costs on selected sections of road, compared with similar areas not targeted by the program. The evaluation takes a longitudinal approach, identifying areas of the city in order to define the intervention units and construct the control group. The objective of the evaluation is to determine whether the social and economic benefits generated by the program are consistent with those anticipated at the time of approval. The evaluation methodology, work plan, and budget are detailed in the Monitoring and Evaluation Plan.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending for poverty reduction and equity enhancement.		
Regional Development Goals			
Bank Output Contribution (as defined in Results Framework of IDB-9)	Institutions for growth and social welfare: Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2662-1	Increase capacities for urban management and the provision of municipal services/infrastructure in medium-sized cities and metropolitan regions.	
Country Program Results Matrix	GN-2696	The intervention is not included in the 2013 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	8.1		10
3. Evidence-based Assessment & Solution	6.4	33.33%	10
4. Ex ante Economic Analysis	10.0	33.33%	10
5. Monitoring and Evaluation	7.8	33.33%	10
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Low		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	Yes	Financial Management: Budget, Treasury, and Accounting and reporting. Procurement: Shopping method, Contracting individual consultant, and National public bidding (use of some national sub-system).	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The program seeks to improve the quality of life for residents of the Municipality of Niteroi through interventions grouped into four components addressing various problems and populations within the municipality. First, the urbanization and social inclusion component improves basic infrastructure, social services, regularization of property and resettlement in four of the Municipality's favelas. The second component on urban mobility installs an integrated system of intelligent stop lights. The third component improves public areas including plazas and parks in the center of the city, and a final component finances institutional strengthening activities. The components of the program are consistent with the development priorities of the municipality proposed in the Master Plan of Niteroi. For each problem, the proposal includes a diagnosis of the problem, the target population, and the proposed solution.

The monitoring of results will be done by the Program Coordination Unit (UGP). Evaluation activities include baseline surveys, midterm, and impact evaluations. The proposed impact evaluations are quasi-experimental, using difference-in-differences to measure the impact on property values, transport time and fuel costs, comparing changes in results between treated and untreated areas.

## RESULTS MATRIX

<b>General objective:</b>	The general objective is to enhance the quality of life of residents of the Município of Niterói by executing urban renewal and social projects. The specific objectives include: (i) improve city services and environmental sanitation conditions in low-income neighborhoods and expand the network of social services and facilities; (ii) improve mobility, connectivity, and safety conditions in the city's transportation system; (iii) support the revitalization of decaying areas in the city center; and (iv) strengthen the institutional capacity of the Municipal Government of Niterói.			
<b>Component 1: Community development and social inclusion</b>	<b>Objective:</b> Improve city services and environmental sanitation conditions in low-income neighborhoods and expand the network of social services and facilities			
<b>Outcome indicators</b>	<b>Unit of measure</b>	<b>Baseline 2012</b>	<b>Target 2017</b>	<b>Source / Means of verification / Comment</b>
% of families with formal drinking water connection	% of families	43% (2010)	To be determined (TBD)	The baseline will be reviewed within the first six months after approval of the program.
% of families with connection to the sewer network	% of families	2% (2010)	TBD	Idem.
Market value of properties located in the program communities (Capim Melado, Vila Ipiranga, Igrejinha, São João).	R\$/m <sup>2</sup>	TBD	TBD	Market study to be conducted by the PMU.
% of families with regularized property title in the four program communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	% of families	Capim Melado = 0 Vila Ipiranga = 0 Igrejinha = 0 São João = 0	Capim Melado = 80% Vila Ipiranga = 80% Igrejinha = 80% São João = 80%	Source: Six-monthly program status report

Output indicators	Unit of measure	Year 1 2014	Year 2 2015	Year 3 2016	Year 4 2017	Target 2017	Source / Means of verification / Comment
Paved area in the program communities (Vila Ipiranga (VI), Capim Melado (CM), Igrejinha (I), São João (SJ))	m <sup>2</sup>	CM = 150.0 VI = 7,740.46	CM = 200.00 VI = 5,149.0 I = 150.0 SJ = 1,500.00	CM = 31.50 VI = 3,784.70 I = 200.00 SJ = 1,743.00	I = 106.0 SJ = 1,500.00	CM = 411.50 VI = 7,740.46 I = 456.0 SJ = 4,743	Source: Six-monthly program status report
Number of formal home water connections in the communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	Connections			CM = 100 VI = 500 I = 200 SJ = 250	CM = 197 VI = 894 I = 648 SJ = 680	CM = 297 VI = 1,394 I = 848 SJ = 930	Source: Six-monthly program status report
Number of formal home sewer connections in the communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	Connections			CM = 100 VI = 500 I = 200 SJ = 250	CM = 197 VI = 894 I = 648 SJ = 680	CM = 297 VI = 1,394 I = 848 SJ = 930	Source: Six-monthly program status report
Storm sewer network installed in the communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	Meters	CM = 81 VI = 528	CM = 97 VI = 657	CM = 97 VI = 657 I = 840 SJ = 1,090	CM = 49 VI = 351 I = 380 SJ = 712	CM = 324 VI = 2,193 I = 1,220 SJ = 1,802	Source: Six-monthly program status report
Daycare centers built in the communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	Daycare centers			CM = 1 VI = 1	I = 1 SJ = 1	CM = 1 VI = 1 I = 1 SJ = 1	Source: Six-monthly program status report
Recreational paths built in the communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	Recreational paths			CM = 1 VI = 1	I = 1 SJ = 1	CM = 1 VI = 1 I = 1 SJ = 1	Source: Six-monthly program status report
Public squares built in the communities (Vila Ipiranga, Capim Melado, Igrejinha, São João)	Parks and squares			CM = 1 VI = 1	I = 1 SJ = 1	CM = 1 VI = 1 I = 1 SJ = 1	Source: Six-monthly program status report
Families resettled	Number of families	CM = 0 VI = 0 I = 0 SJ = 0		CM = TBD VI = TBD	I = TBD SJ = TBD		Source: Six-monthly program status report. The resettlement plan for each community must be implemented prior to start of any works that require involuntary resettlement.

<b>Component 2: Urban mobility</b>		<b>Objective:</b> Improve mobility, connectivity, and safety conditions in the city's transportation system					
<b>Outcome indicators</b>	<b>Unit of measure</b>	<b>Baseline 2012</b>		<b>Target 2017</b>		<b>Source / Means of verification / Comment</b>	
Average reduction in fuel costs (for travel at peak traffic hours) on the segment: Túnel - Praça Araribóia (vía Ingá)	Liters/km	0.164		0.150		Source: SMU, and six-monthly program status report	
Reduction in average travel time at peak traffic hours on the segment: Túnel - Praça Araribóia (vía Ingá)	Minutes	17.17		15.30		Source: SMU, and six-monthly program status report	
<b>Output indicators</b>	<b>Unit of measure</b>	<b>Year 1 2014</b>	<b>Year 2 2015</b>	<b>Year 3 2016</b>	<b>Year 4 2017</b>	<b>Target 2017</b>	<b>Source / Means of verification / Comment</b>
CCO implemented	CCO	-	1	-	-	1	Source: Six-monthly program status report
ATC signals installed	ATC signals	3	3	4		10	Source: Six-monthly program status report
<b>Component 3: Revitalization of downtown areas</b>		<b>Objectives:</b> Revitalization of decaying areas in the city center					
<b>Outcome indicators</b>	<b>Unit of measure</b>	<b>Baseline 2012</b>		<b>Target 2017</b>		<b>Source / Means of verification / Comment</b>	
Number of visitors to downtown Niterói	Person/day	5,000		6,500		Source: Field study by the PMU	
<b>Output indicators</b>	<b>Unit of measure</b>	<b>Year 1 2012</b>	<b>Year 2 2013</b>	<b>Year 3 2014</b>	<b>Year 4 2015</b>	<b>Target 2017</b>	<b>Source / Means of verification / Comment</b>
"Water park" redeveloped	Park	-	-	1	-	1	Source: Six-monthly program status report
Public squares redeveloped	Square	2	-	-	-	2	Source: Six-monthly program status report

<b>Component 4: Institution-strengthening</b>	<b>Objectives:</b> Strengthen the institutional capacity of the Municipal Government of Niterói						
<b>Outcome indicators</b>	<b>Unit of measure</b>	<b>Baseline 2012</b>		<b>Target 2017</b>		<b>Source / Means of verification / Comment</b>	
Built-up area recorded in the município's urban property tax roll	m <sup>2</sup>	18,039,375		20,745,281		Source: Six-monthly program status report	
<b>Output indicators</b>	<b>Unit of measure</b>	<b>Year 1 2012</b>	<b>Year 2 2013</b>	<b>Year 3 2014</b>	<b>Year 4 2015</b>	<b>Target 2017</b>	<b>Source / Means of verification / Comment</b>
Municipal officials trained	Officials	200	200	-	385	785	Source: Six-monthly program status report
Hardware purchased	Hardware items	130	151	-	-	281	Source: Six-monthly program status report
Georeferenced data system implemented	System	-	-	1	-	1	Source: Six-monthly program status report



## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Brazil  
**Project number:** BR-L1055  
**Name:** Niterói Urban Development and Social Inclusion Program  
**Executing agency:** Município of Niterói  
**Prepared by:** Marília Santos (Procurement Specialist), with the support of  
Dominique Puthod (Young Professional)  
Leise Estevanato (Financial Management Specialist)

### **I. EXECUTIVE SUMMARY**

- 1.1 Fiduciary management was evaluated on the basis of meetings with the Bank's project team and the executing agency, as well as the program documents produced, including the institutional assessment (ICAS) and risk assessment (PRM).
- 1.2 The institutional assessment and risk assessment of the executing agency were taken into account in preparing the fiduciary agreements for procurement and financial management and administration applicable for program execution.

### **II. FIDUCIARY CONTEXT OF THE COUNTRY**

- 2.1 The Bank's fiduciary strategy with Brazil remains focused on strengthening external control systems. As of end-2012, five "audit offices" had been authorized to conduct audits of programs financed in part by the IDB, and another seven were in the process of approval. This reflects the fact that Brazil has strong country fiduciary systems in place for effective management of administrative, financial, control, and procurement processes in line with the principles of transparency, economy, and efficiency. The Bank has been working with the three levels of government to use existing management tools, in order to continue that strengthening process while at the same time lowering transaction costs.
- 2.2 Lastly, the Bank has substantially increased the use of country public procurement systems, primarily ComprasNet (electronic reverse auction system managed by the federal government), Banco do Brasil's "Licitações-e" system, and the state e-procurement systems of the states of São Paulo (BEC), Rio de Janeiro (SIGA), and Minas Gerais.

### **III. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 3.1 The program's executing agency will be the Município of Niterói, represented by its Project Management Office (EGP), through the establishment of a Program

- Management Unit (PMU), which will be responsible for coordinating, planning, monitoring, and executing activities related to Bank-financed projects and actions. The PMU will work in coordination with the other agencies of the Município of Niterói involved in execution.
- 3.2 Since this is a municipal project, it is subject to the national laws governing public administration, including the Fiscal Responsibility Law (LRF) and Law 8666/93 on Procurement and Contracting.
- 3.3 Recognizing that the Município of Niterói will have to comply with Bank policies when conducting procurement processes under the program, it was agreed to establish/institute a Special Bidding Commission (CEL) within the organizational structure of the PMU to conduct program procurement processes. In order to execute the planned activities, the team will require strengthening and training in Bank fiduciary policies, rules, and procedures.
- 3.4 Regarding the automated system required for keeping accounting, financial, and procedural records and for generating the reports requested by the Bank, it was reported that the município intends to use the “e-Cidade” system, for which a module will be developed by the Information and Communication Technology Center of the State of Rio de Janeiro (PRODERJ), contracted by the municipal government to implement and maintain the e-Cidade system, as necessary. The e-Cidade system will also be the comprehensive system of the municipal government.
- 3.5 The executing agency, acting through the PMU, will be responsible for coordinating with other departments and state agencies involved in execution and fiduciary management of the operation, including preparing the budget, processing expenditure authorization and recognition, and making the respective payments.

#### **IV. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 4.1 As a result of the institutional capacity and risk assessment, the following risks were identified in the fiduciary area: execution delays, due to unfamiliarity with Bank procurement and financial management policies and procedures; and possible slippage in the planned disbursement schedule. Mitigation actions: (i) creation of the PMU, with the appointment of personnel dedicated solely to the program; (ii) engagement of a firm to support the PMU in program management and administration; (iii) creation of a Special Bidding Commission within the PMU; (iv) training for designated members of the execution team; (v) presentation of the legal instrument establishing the relationship, duties, and responsibilities of EMUSA, CLIN, NITTRANS, and Aguas de Niterói with respect to the program; and (iv) confirmation that the e-Cidade module for record-keeping and generating the reports required by the Bank is operational.

## V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 5.1 Conditions precedent to the first disbursement: (i) Signature and entry into force of the legal instruments between the Município of Niterói and the other municipal institutions involved in the program, on the terms previously agreed upon with the Bank; (ii) publication of the decree establishing the Program Management Unit (PMU) and appointing its professional staff; (iii) publication of the decree establishing the Special Bidding Commission (CEL) and appointing its members; (iv) entry into force of the program Operations Manual, on the terms previously agreed upon with the Bank; and (v) signature and entry into force of an agreement between the Município of Niterói and Aguas de Niterói and CLIN for program activities, on the terms previously agreed upon with the Bank. Audited financial statements: An independent external auditing firm will be engaged to perform an annual audit of the financial statements for program expenditures, in accordance with Bank procedures.
- 5.2 Other financial management requirements: The supporting documentation for expenditures incurred will be reviewed on an ex post basis by the independent audit firm engaged for such purpose and by a Bank-appointed consultant.
- 5.3 Exchange rate to be used: In accounting for the loan proceeds and local contribution resources, amounts paid in local currency will be converted into the currency of the operation, in accordance with the following provisions, to be determined: (i) the prevailing exchange rate on the date of payment; or (ii) the effective exchange rate on the date of conversion from the currency of the operation into the local currency, in the case of advances of funds. For reimbursement and local contribution requests, the exchange rate used will be the prevailing rate on the submission date of the disbursement request.

## VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

### 1. Procurement execution

- 6.1 The fiduciary agreements and requirements for procurement establish the provisions to be applied and observed when executing all procurement and contracting processes under the program:
- a. **Procurement of works, goods, and nonconsulting services.** Works, goods, and services financed in whole or part with IDB resources will be procured in accordance with the “Policies for the procurement of goods and works financed by the Inter-American Development Bank” (document GN-2349-9, March 2011).
- 6.2 The Bank may recognize the procurement procedures provided in Law 10520/2002 on Electronic Bidding when the estimated cost is below the thresholds established for use of ICB, per contract, provided the requirements of the Bank’s procurement policies are met, specifically with respect to: (i) origin of the goods; (ii) nationality

- of the suppliers; (iii) changes to purchase orders; (iv) prohibition on price bands; and (v) publication in a newspaper of broad national circulation.
- 6.3 For application of Law 10520/2002, the following thresholds must be observed: (i) electronic auction, using systems approved by the Bank for the procurement of generic goods and services, where the estimated cost is US\$5 million or less; (ii) price schedule, for procurement of generic goods and services where the estimated cost is US\$5 million or less, and where the schedule has been previously accepted by the Bank; and (iii) live auction, for procurement of generic goods and services where the estimated cost is US\$100,000 or less. The Bank may at any time during program execution prohibit use of one or more of the procedures described in this paragraph.
- 6.4 **Selection and contracting of consulting services.** Consulting services for the program financed in whole or part with Bank resources will be selected and contracted in accordance with the “Policies for the selection and contracting of consultants financed by the Inter-American Development Bank” (document GN-2350-9, March 2011).
- 6.5 Consulting firms will be selected and contracted using the method stipulated in Sections II (Quality- and cost-based selection, QCBS) and III (Other methods of selection) of document GN-2350-9, taking as the basis for structuring the processes the guidelines and standards described in Section II (Quality- and cost-based selection, QCBS).
- 6.6 In conducting the contracting, the executing agency will compile short lists with six selected firms that have met the technical requirements established in the request of expressions of interest.
- 6.7 Regardless of the selection method used, when the estimated cost of the contract is US\$200,000 or more, the request for expressions of interest must be published via UNDB Online (international publicity).
- 6.8 Individual consultants financed in whole or part with the loan proceeds must be selected and contracted in accordance with Section V (Selection of individual consultants) of document GN-2350-9.
- a. Recognition of expenditures and advance procurement**
- 6.9 **Recognition of expenditures.** No retroactive financing is envisaged. Recognition of expenditures is envisaged for a total amount of US\$3.7 million. Of this total, the Bank may recognize up to US\$1.7 million in eligible expenditures on works incurred by the borrower prior to the loan approval date as part of the local contribution, provided that they met requirements substantially similar to those established in the loan contract. Such expenditures must have been incurred on or after 1 January 2012, but in no case more than 18 months prior to the loan approval date.
- 6.10 **Waiver of Bank policy.** For the remainder of the US\$3.7 million, the borrower has requested a waiver of the Bank’s policy on recognition of expenditures, retroactive

financing, and advance procurement (document GN-2259-1/Operational Policy OP-507), in order to recognize up to US\$2 million in expenditures incurred by the borrower since 1 June 2007 as part of the local contribution to the program. These expenditures are US\$600,000 for the construction of public squares and US\$1.4 million for urban development of the Vila Ipiranga favela, which are an integral part of program interventions. The contracting procedures for these works were in accordance with local law. In addition to meeting the program eligibility criteria, expenditures may be recognized only if accompanied by contracting documentation, corresponding tax invoices, or other documents attesting to the outlays made specifically for these works. The procedures used for the selection and contracting of projects must have adhered to the criteria of eligibility, effectiveness, and economy, and their contacting must have followed the rules established in local legislation. The expenditures will be recognized to the extent that they comply with the Bank's procurement policies (documents GN-2349-9 and GN-2350-9).

- 6.11 The procedures used in the selection and contracting of the above mentioned works are in accordance with local legislation. Recognition of expenditures under Components 1 and 3 will be contingent on presentation of evidence that the conditions established in the Plan for Removal and Relocation of Affected Units and in the Environmental Assessment Report were met.
- a. **Domestic preference.** No margins of domestic preference will be applied.

## VII. THRESHOLD AMOUNTS FOR BRAZIL (IN US\$)

- 7.1 The threshold for the use of international competitive bidding will be available to the borrower or executing agency on the website [www.iadb.org/procurement](http://www.iadb.org/procurement). Below that threshold, the selection method will be determined by the complexity and nature of the procurement process, which must be reflected in the procurement plan approved by the Bank. The threshold for compiling a short list of international consultants will also be available on the above website. Below that threshold, the shortlist may comprise entirely domestic consultants.

### 2. Main procurement processes

Activity	Procurement method	Estimated date	Estimated amount (US\$)
<b>Consulting services</b>			
Project final design	QCBS	Jan-2013	1,239,926
Program management support	QCBS	Jan-2014	1,771,000
Works supervision	QCBS	Oct-2013	909,000
<b>Goods and services</b>			
Equipment for CCO/ATC	ICB	Dec-2014	5,135,000
Firm to support regularization of title	NCB	Dec-2014	867,827
<b>Works</b>			
Works in the community of São João	NCB	Dec-2014	10,517,796
Works in the community of Igrejinha	NCB	Dec-2014	5,506,663

### **3. Procurement supervision**

- 7.2 It was determined by mutual agreement with the team that the processes indicated in the procurement plan which are financed by the Bank in whole or part, and any processes which have an estimated cost above the ICB thresholds or involve direct contracting, will be subject to ex ante review.

### **4. Special provisions**

- a. Procurement plan: The PMU will deliver any updates to the 18-month procurement plan for the Bank's review and approval annually or as necessary.
- b. Procurement processes for goods and nonconsulting services under Law 10520/2002 on electronic auctions must use systems recognized by the Bank for such purpose.

### **5. Records and files**

- 7.3 Program records and files must meet at least the following conditions:
- a. Records/files must contain original documentation, filed in chronological order;
  - b. Records/files must be maintained in a suitable environment intended for such purpose, with restricted access and preventive measures for security, such as a ban on smoking in the premises, access restricted to authorized persons, etc.;
  - c. There must be a register of all documentation on file.

## **VIII. AGREEMENTS AND REQUIREMENTS FOR FINANCIAL MANAGEMENT**

### **A. Budget**

- 8.1 Like any governmental body, the Municipal Government of Niterói uses planning tools such as the Multiyear Plan (PPA) and the Annual Budget Law (LOA). The budget earmarked for program activities is part of the LOA.
- 8.2 The 2013 Budget Law must authorize the funds necessary for execution, both the external loan and the local counterpart.
- 8.3 The Bank will recognize eligible project expenditures based on the items established and executed and deemed eligible under Operational Policy OP-540.

### **B. Accounting and information system**

- 8.4 The project's budgetary and financial execution will be performed directly through the system to be acquired, which must be suitably adapted for the purpose.
- 8.5 With respect to the financial module, in addition to the standardized reports required by the Bank, a "financial plan" must be prepared to support requests for advances of funds under the project.

### C. Disbursements and cash flow

- 8.6 The program will operate with resources advanced by the Bank to satisfy the project's actual liquidity needs. This will require submission of a disbursement request, along with a financial plan, previously agreed upon with the Bank, reflecting the need for funds for the period in question. The PMU will provide the Bank with an initial financial plan containing the disbursement schedule for the entire execution period. This initial plan will give rise to the first disbursement request, reflecting the first six months of execution, as a basis for planning the first advance of funds. Subsequent advances will require accountability for at least 80% of previously advanced funds, and a new financial plan for the period in question.
- 8.7 Supporting documentation for expenditures will be subject to ex post review.

### D. External control and reports

- 8.8 External control will be performed by an independent audit firm previously selected and contracted in accordance with the Bank's specific policies and procedures for such purpose. Audited annual financial statements must be delivered to the Bank within 120 days after the close of the fiscal year.

### E. Financial supervision plan

Supervision activities	Supervision plan			
	Nature and scope	Frequency	Responsible entity	
			Bank	Third party
<b>OPERATIONAL</b>	Review of physical progress on actions/activities called for under the components versus disbursements.	Six-monthly	Technical team	
	Review of progress report	Six-monthly	Fiduciary and technical teams	Executing agency
	Portfolio review	Annual	Technical team	
<b>FIDUCIARY</b>	Prior and post review of disbursements and procurements	Annual	Fiduciary team	Fiduciary team and external auditors
	Financial and operational audit	Annual		External audit firm
	Review of disbursement requests and accompanying reports	Periodic	Fiduciary and technical teams	
	Inspection visit and analysis of internal controls and control environment	Annual	Fiduciary team	

<b>COMPLIANCE</b>	Annual allocation of budgetary resources required for project execution	Annual	Fiduciary team	Executing agency
	Delivery of audited financial statements and operational audit	Annual	Fiduciary and technical teams	Executing agency
	Conditions precedent to first disbursement	Once	Fiduciary and technical teams	Executing agency

- 8.9 The supervision plan is oriented toward a medium-risk operation. This plan may be modified during project execution, in view of the risk circumstances observed or needs for additional controls as determined by the Bank.

**F. Execution arrangements**

- 8.10 In view of the execution arrangements defined, a centralized administrative and financial execution system is necessary, operating through the PMU, which will be responsible for annual budget preparation and financial execution of both the local contribution and IDB contribution.



## TIMELINE OF EVENTS

Years	2007	2008	2009	2010	2011	2012	2013
Events:	Loan approved by the Bank				Loan cancelled	Works under way with município's own resources in 2 favelas, begun in September 2012	January: Request for loan reactivation
							June: Loan proposal submitted to Board of Executive Directors
Recognition of expenditures:		Works under way with município's own resources in 2 public squares (Jardim São João and Praça Leoni Ramos) and the favela of Vila Ipiranga: Total US\$2 million				Total 1.7 million	