



Board of Executive Directors

For consideration

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To: The Executive Directors
From: The Secretary
Subject: Brazil. Proposal for a loan for the "State Program to Support Urban Development and Municipal Infrastructure Improvements: Paraná Urbano III"

Basic Information: Loan type Global Credit Operation (GCR) and Specific Investment Operation (ESP)
Borrower State of Paraná
Guarantor Federative Republic of Brazil
Amount up to US\$118,370,000
Source Ordinary Capital

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Remarks: This operation is not included in Annex III of document GN-2915, "2018 Operational Program Report" nor in the respective update. Therefore, the operation does not qualify for approval by No-Objection Procedure, in accordance with Part III of document GN-1838-3.

Reference: GN-1838-3(6/18), DR-398-18(8/18), GN-2915-2(8/18), PR-2110(2/96), DE-22/96, PR-2676(5/02), DE-53/02

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BRAZIL

**STATE PROGRAM TO SUPPORT URBAN DEVELOPMENT AND
MUNICIPAL INFRASTRUCTURE IMPROVEMENTS: PARANÁ URBANO III**

(BR-L1520)

LOAN PROPOSAL

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ABBREVIATIONS

| | |
|----------------|---|
| AWP | Annual work plan |
| COPEL | Companhia Paranaense de Energia [Paraná Energy Company] |
| DATASUS | Information Technology Department of the Unified Health System |
| DENATRAN | Departamento Nacional de Trânsito [National Department of Transportation] |
| ESMP | Environmental and social management plan |
| ESMR | Environmental and social management report |
| FDU | Fundo Estadual de Desenvolvimento Urbano [State Urban Development Fund] |
| Fomento Paraná | Agência de Fomento do Paraná S.A. [Paraná Development Agency] |
| HDI | Human development index |
| IBGE | Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics] |
| ICB | International competitive bidding |
| INEP | Instituto Nacional de Estudos e Pesquisas Educacionais Anísio Teixeira [Anísio Teixeira National Institute of Educational Studies and Research] |
| IPARDES | Instituto Paranaense de Desenvolvimento Econômico e Social [Economic and Social Development Institute of Paraná] |
| IPTU | Imposto sobre propriedade predial e territorial urbana [urban land and property tax] |
| IRR | Internal rate of return |
| ISS | Imposto sobre serviços [services tax] |
| LOA | Lei Orçamentária Annual [Annual Budget Law] |
| LRF | Lei de Responsabilidade Fiscal [Fiscal Responsibility Law] |
| PDU | Program direction unit |
| PEU | Program execution unit |
| PMR | Project monitoring report |
| PMU | Program management unit |
| PSF | Programa Saúde da Família [Family Health Program] |
| SAM | Project monitoring system |
| SEDU | Secretaria de Estado do Desenvolvimento Urbano do Paraná [State of Paraná Department of Urban Development] |
| SFM | Sistema de Financiamento de Ações nos Municípios do Estado do Paraná [System for Financing Actions in the Municípios of the State of Paraná] |
| SGF | Sistema de Gestão Financeira [Financial Management System] |
| SIAB | Sistema de Informação de Atenção Básica [Basic Care Information System] |
| SICONFI | Sistema de Informações Contábeis e Fiscais do Setor Público [Public Sector Accounting and Fiscal Information System] |
| STN | Secretaria do Tesouro Nacional [National Treasury Department] |
| TCE/PR | Tribunal de Contas do Estado de Paraná [State of Paraná Audit Office] |

PROJECT SUMMARY

BRAZIL STATE PROGRAM TO SUPPORT URBAN DEVELOPMENT AND MUNICIPAL INFRASTRUCTURE IMPROVEMENTS: PARANÁ URBANO III (BR-L1520)

| Financial Terms and Conditions | | | | |
|--|----------------------|-------------------------------------|---|-------------------------------------|
| Borrower: State of Paraná | | | Flexible Financing Facility ^(a) | |
| Guarantor: Federative Republic of Brazil | | | Amortization period: | 25 years |
| Executing agency: Serviço Social Autônomo Paranaense and Agência de Fomento do Paraná, S.A. – Fomento Paraná | | | Disbursement period: | 4 years |
| | | | Grace period: | 5.5 years ^(b) |
| Source | Amount (US\$) | % | Interest rate: | LIBOR-based |
| IDB (Ordinary Capital): | 118,370,000 | 100% | Credit fee: | ^(c) |
| | | | Inspection and supervision fee: | ^(c) |
| Local: | 118,370,100 | 100% | Weighted average life (WAL): | 15.25 years |
| Total: | 236,740,100 | 100% | Currency of approval: | U.S. dollars |
| Project at a Glance | | | | |
| Objective: The program's general objective is to contribute to sustainable reduction of the urban infrastructure deficit in the municípios of Paraná. The specific objectives are: (i) to improve the municípios' fiscal and financial management and urban planning capacity; (ii) to increase the coverage and quality of infrastructure for urban basic services; and (iii) to increase the operational efficiency of the System for Financing Actions in the Municípios of the State of Paraná (SFM). | | | | |
| Special contractual conditions precedent to the first disbursement of the loan proceeds: The borrower will provide evidence to the Bank that the program Operating Regulations and environmental and social management plan (ESMP) have entered into force, by administrative order of the State of Paraná Department of Urban Development (SEDU), published in the official gazette of the State of Paraná (see paragraph 3.7). | | | | |
| Exceptions to Bank policy: None. | | | | |
| Strategic Alignment | | | | |
| Challenges: ^(d) | SI | <input checked="" type="checkbox"/> | PI | <input type="checkbox"/> |
| Crosscutting themes: ^(e) | GD | <input type="checkbox"/> | CC | <input checked="" type="checkbox"/> |

- ^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when considering such requests.
- ^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- ^(c) 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 applicable policies.
- ^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- ^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 The Bank's Board of Executive Directors approved a loan for this program via Resolution DE-235/14 of 17 December 2014. Brazil's slow economic growth was identified as a risk, but since the indexes pointed to a moderate recovery in the short term, the magnitude of the fiscal difficulties experienced by the State of Paraná in 2015 and 2016 was not foreseen. As a result, the loan contract for the operation was not signed, because the National Treasury did not grant the required guarantee. At end-2016, the State of Paraná had two contracts pending signature with the Bank and enough fiscal headroom for one of them to receive a Treasury guarantee. Faced with pressing challenges in citizen security, the State of Paraná prioritized signing the Paraná Seguro operation (loan BR-L1331; 3137/OC-BR), and the loan for this program was canceled by the Bank on 12 July 2017. With its fiscal position improved in 2018 ("B" rating from the National Treasury Department (STN)), the State of Paraná submitted a new request to the Bank for this program on 18 January 2018, obtaining authorization from the Federal Government of Brazil. Following a new request from the State of Paraná on 18 January 2018, the Brazilian federal government has authorized the state to prepare a new loan for the program. Since the loan approved in 2014 was canceled, a new loan needs to be approved for the program in response to this new request from the state. Given the time that has passed, a series of changes and updates to the draft loan proposal were necessary, as reflected in this document.
- 1.2 The State of Paraná, with a population of 11.2 million in 2016,¹ is the sixth most populous state in Brazil. It is located in the southern part of the country and has 399 municípios. Its GDP is US\$106.541 billion (2016), representing 6.4% of national GDP, the fifth highest of Brazil's 26 states. The state's electrical service has near-100% coverage, run by a distribution utility under concession. Paraná's per capita GDP is equivalent to US\$8,648, nearly 10.2% higher than the national average.² Its human development index (HDI) is 0.749, higher than the national HDI of 0.727 and fifth-highest of the Brazilian states.³
- 1.3 **Deficit in urban infrastructure and public services.** Paraná is highly urbanized. People find greater opportunities for employment and better public services in its cities, so there is increasing pressure to expand these services. Between 1990 and 2000, the urban population grew at an annual rate of 2.3%, due to migration from rural areas. As a result of this growth, the rate of urbanization rose from 73.4% at the beginning of this century to its current level of 85.3%. According to the Brazilian Institute of Geography and Statistics (IBGE), population growth in Paraná's mid-sized cities was higher than the state average; in that decade cities with populations of between 50,000 and 100,000 grew by 19.3%, and cities with

¹ Source: Economic and Social Development Institute of Paraná (IPARDES), Paraná em números [Paraná by the numbers], 2017.

² Source: [IPARDES, 2017](#).

³ United Nations Development Programme (UNDP), Municipal HDI (2010), Human Development Atlas 2013.

- populations of between 30,000 and 50,000 grew by 17%.⁴ Rapid urban population growth, combined with institutional weaknesses in many municípios and insufficient financial resources to meet the needs of these new residents, has led to major deficits in urban infrastructure and public services.
- 1.4 The greatest gaps in infrastructure coverage for which municípios are responsible are paved roads with sidewalks, lighting, storm drainage, solid waste collection and final disposal, public transportation, areas for recreational and cultural activities, greenspace, social assistance centers, and child care facilities.⁵ For example, although 82.3% of urban roads are paved, only 58.6% have sidewalks, 65.1% have sewers and storm drains, and only 9.7% have wheelchair ramps. Street lighting is a municipal responsibility. Of the existing road network, 8% does not have public lighting. The 92% of roads that do have public lighting use an old technology (mainly sodium vapor and mercury vapor). Replacing these lamps with efficient lighting could reduce energy consumption (and the associated municipal expenditure) by half. The deficiencies are greater in the municípios with smaller populations, particularly those with a population of less than 50,000.⁶ In terms of social facilities, Paraná has a deficit of 335 basic health care units and 3,969 childhood education centers; thus, some 396,921 children ages 0 to 3 have no access to child care services.
- 1.5 **Obstacles to urban mobility.** Along with urban expansion, the number of vehicles on the road rose 85.7% between 2006 and 2016,⁷ eight times faster than the increase in Paraná's population, causing severe congestion and adversely affecting the public bus transportation system, a mode of transportation used mostly by low-income individuals. In addition, many of the new neighborhoods that have arisen as a result of migration are unregulated, and their streets are unfit for traffic, which prevents regular bus service in these communities. Between 2005 and 2010, traffic accidents with casualties increased 17.7%.⁸ These problems have been aggravated by the lack of investment in expanding the road network, which has failed to keep pace with urban expansion, as well as scant incentives to use nonmotorized transportation and invest in bicycle paths.
- 1.6 **Limited fiscal and institutional capacity of municípios.** For the majority of Paraná's municípios, transfers from both the federal and state governments represent 80% to 90% of their revenues. Of these revenues, 88.3% are allocated to current expenditures and public service delivery, which leaves little room for financing new investments. This dependency is due to weaknesses in technical

⁴ IBGE: [Sinopsis del Censo Demográfico 2010: Paraná](#) [Synopsis of the 2010 Demographic Census: Paraná].

⁵ Paraná has 3,298,578 households, 13.8% of which consist of single women with children; this is equivalent to 455,204 single women with children ([IBGE, 2013](#)). Child care centers offer support to single mothers.

⁶ Source: [Diagnóstico de infraestrutura e serviços públicos urbanos nos municípios do Paraná](#) [Diagnostic assessment of urban infrastructure and public services in the municípios of Paraná].

⁷ State of Paraná Department of Transportation (DETRAN/PR), Transportation Statistics, January 2007 and January 2017.

⁸ [State of Paraná Department of Transportation](#), Anuário Estadístico de Trânsito, 2010 [Annual Transportation Statistics, 2010]. The number of accidents with casualties rose from 63,843 in 2005 to 75,112 in 2010, with 70.6% occurring on municipal roadways.

capacity and lack of effective instruments for revenue collection. Many of the municípios have no real estate cadastres or updated cartographic databases, affecting the collection of the urban land and property tax (IPTU) and taxes on improvements. Furthermore, the lack of commercial records makes it difficult to collect the services tax (ISS), which is the second largest source of municipal tax revenue. There is also a widespread lack of modern information management instruments, particularly computer hardware and specialized software for fiscal and financial management. In terms of urban development, the absence of updated master plans⁹ is an indicator of the limited capacity to guide and control the growth of cities. In addition, there is insufficient technical capacity, particularly in small and medium-sized municípios, to deal with national legal requirements, such as the preparation of master plans for sanitation and mobility.

- 1.7 **Paraná's strategy with its municípios.** The State of Paraná has supported its municípios through urban development financing programs to reduce the deficit of basic infrastructure and services in the state's cities. Since 1988 US\$882 million has been invested in such programs, some with Bank financing.¹⁰ Thus, this third program seeks to continue that strategy (see paragraph 1.8), offering resources for projects and actions to support: (i) urban planning and management to achieve balanced territorial development; and (ii) improvements in fiscal management capacity, so that in the future municípios will be able to finance works of this type with a greater proportion of their own resources.
- 1.8 **System for Financing Actions in the Municípios of the State of Paraná (SFM).** The State of Paraná has a set of policies and instruments to support urban development. Among these, the State Urban Development Fund (FDU), established in 1988, has stood out for some time. The FDU began with two loans from the World Bank. Beginning in 1996, it received resources from two IDB loans, the first for US\$249 million, and the second for US\$100 million (see paragraphs 1.13 and 1.15). Since 2000, with Brazil's Fiscal Responsibility Law (LRF), which prohibited lending operations between federative entities, the FDU's resources were shifted as a capital contribution¹¹ to a state financial institution, Agência de Fomento do Paraná, S.A. [Paraná Development Agency] (known as Fomento Paraná).¹² The state is thus able to continue offering financing to its municípios through Fomento Paraná.
- 1.9 The State of Paraná created the System for Financing Actions in the Municípios of the State of Paraná (SFM)¹³ in 2002, updating it in 2013 to consolidate its

⁹ The Urban Master Plan is a legal requirement for municípios of more than 20,000 inhabitants. [Estatuto da Cidade \[City Statute\] \(Law 10,257/01, Article 41\)](#).

¹⁰ Paraná Urbano I (loan BR-0212, 917/OC-BR) and Paraná Urbano II (loan BR-0374, 1405/OC-BR).

¹¹ Law 13,227 of 18 July 2001 incorporated the FDU resources into Fomento Paraná's capital. Fomento Paraná must keep accounting records regarding the use of FDU funds and returns earned on them.

¹² Agência de Fomento do Paraná, S.A., known as Fomento Paraná, is a closely held semipublic corporation, whose majority shareholder is the State of Paraná. Created under Law 11,741/1997, it is an independent financial entity affiliated by law with the Department of Finance. Because of its legal status, Fomento Paraná is not subject to the LRF restriction and can therefore provide financing to municípios of the State of Paraná.

¹³ The SFM was created by [Decree 5,631 of 30 April 2002](#), and later updated and modernized via Decree 5,409/16 and state Law 17,655 of 7 August 2013, which consolidated its organizational structure.

organizational structure and the roles of its core entities. The SFM is based on an organizational structure in which the Department of Urban Development (SEDU) is responsible for setting state urban development policy guidelines and for administering the SFM, which it does through its autonomous social service entity, Serviço Social Autônomo Paranácidade.¹⁴ Paranácidade is the technical/operational agent, tasked as such with coordinating and prioritizing the SFM loan portfolio and supervising execution of the loans. Fomento Paraná acts as fiscal agent of the SFM resources and is thus responsible for the loan contracts with beneficiary municípios and making the respective disbursements. These entities are supplemented by an SFM investment committee, created in 2013 as an advisory and deliberative body to support SFM operations.

- 1.10 The SFM's objective is to support municipal development by offering financing, mainly loans, for the delivery of basic services, infrastructure, and public goods, and institution-strengthening. All of Paraná's municípios and state enterprises are eligible to use funds from the SFM, whose capital consists of: (i) FDU funds contributed by the state as part of Fomento Paraná's share capital (equivalent to US\$311 million);¹⁵ (ii) earnings from financial transactions with FDU funds; (iii) earnings from finance charges on loans of FDU funds to municípios; and (iv) Fomento Paraná funds allocated to the public sector. The SFM may also use resources from other sources, but now relies exclusively on the state's borrowing capacity, which is limited by the LRF, for its leveraging of fresh funds. On the demand side, the municípios generally have sufficient borrowing capacity to use SFM loans for their investments. However, the current availability of financial resources from the SFM is limited: potential demand is close to R\$2.7 billion per year,¹⁶ whereas the SFM's annual disbursement capacity is in the vicinity of just R\$175 million.
- 1.11 This operation will help to increase SFM's resources, and, given the restrictions on the state's borrowing capacity, will also support studies to identify and develop financial mechanisms to attract additional private sector resources. The various arrangements include financial models such as concessions and securitization, which have previously been successfully executed in municipal projects. It is worth noting that urban rehabilitation projects deliver a financial benefit, enhancing the value proposition of urban development and its impact on real estate by maximizing private investment and optimizing the use of resources through future capital gains that can be generated as a result of project execution. Fomento Paraná is studying different alternatives for these types of operations within the Brazilian financial market to identify which instruments would be most suitable for the municipal financial policy for the private sector to finance the infrastructure, including different investment funds and guarantees.

¹⁴ Paranácidade is a nonprofit entity organized and operating under private law in the public interest, created in 1996 under Law 11,498 of the State of Paraná, later superseded by Law 15,211 of 2006. [Paranácidade](#) is an autonomous social service entity with separate legal status and cooperative ties with the SEDU.

¹⁵ Under Law 17,655 of 2013, all returns on loans (amortization and interest) and any earnings on financial transactions with FDU funds must be used for new loans associated with the SFM.

¹⁶ Amount equivalent to the value of the borrowing capacity of Paraná's municípios.

- 1.12 **Paranácidade.** This entity has made notable efforts to improve its operational efficiency in recent years. Among its most significant initiatives, Paranácidade: (i) implemented the SEDU/Paranácidade Interactive System to support decision-making and urban/municipal planning and management; (ii) restructured its administrative processes; and (iii) is conducting a process analysis based on cost-accounting, to determine project preparation costs at each stage and improve operational management, with the aim of establishing a culture of results-based management. All these changes have helped to lower interest rates and create conditions to facilitate access for smaller municípios. However, there is no system for assessing the individual risk of the municípios, so that differentiated rates can be applied, nor is there a geographic information system to support operations and aid municípios in identifying their investment needs.
- 1.13 **Lessons learned.** Preparation of this operation takes into account lessons learned from: (i) the Program to Support Urban Development in Paraná (Paraná Urbano I) (loan 917/OC-BR); and (ii) the Paraná Urbano II Program (loan 1405/OC-BR). Both of these operations enabled Paranácidade to gain much experience in preparing and executing projects with the Bank. Also taken into account were urban programs in large cities, such as: (i) the Rio de Janeiro Urban Upgrading Program “Favela Bairro” (loans 898/OC-BR, 898/OC-CPS, and 1241/OC-BR); (ii) the Program for Urban Development of Regional Hubs – Ceará (loan 2826/OC-BR); and (iii) more than 14 urban development operations targeting medium-sized cities (PROCIDADES facility).
- 1.14 The proposed support for municípios through reimbursable loans aimed at improving municipal urban infrastructure also draws on the literature regarding municipal development funds.¹⁷ In the region, Financiera de Desarrollo Territorial (FINDETER) of Colombia and Banco Nacional de Obras y Servicios Públicos (BANOBAS) of Mexico are examples of similar sustainable subnational financing facilities. Although there are no other municipal funds in Brazil, important lessons and successful practices do exist, including several developed by the Bank.¹⁸
- 1.15 The main lessons learned were: (i) the sustainability of the municipal financing facilities needs to be assured, for which reason the team worked with the State of Paraná to ensure that FDU funds would be revolving, so that they could be used for new municipal loans; (ii) strengthening of municipal governments should be prioritized according to their size, so training offerings must be differentiated;¹⁹ and (iii) projects need to be formulated in the context of local urban development plans, so that they are consistent with integrated local investment programming. This program will therefore strengthen the planning capacity of municípios and update master plans (see paragraph 1.21). Additionally, the projects identified will demonstrate economic and technical viability and meet environmental safeguard

¹⁷ See: Farvacque-Votikovic, Catherine, and Kopanyl, Milhaly (eds.): *Municipal finances: A handbook for local governments*. World Bank, 2014. See also: Peterson, George E. and Annez, Patricia Clarque (eds.): *Financing cities: Fiscal responsibility and urban infrastructure in Brazil, China, India, Poland, and South Africa* (p. 213), World Bank/Sage Publications, 2007.

¹⁸ “Slum upgrading: Lessons learned from Brazil,” IDB (2012), “Building cities: Neighborhood upgrading and urban quality of life,” IDB (2009).

¹⁹ Thus, in this operation different products are being offered for municípios with populations below and above 50,000 inhabitants.

requirements, for which reason the program Operating Regulations include eligibility criteria as a prerequisite to providing loans to municípios ([optional link 5](#)).

- 1.16 **The Bank's country strategy and strategic alignment of the operation.** This program is consistent with the Bank's country strategy with Brazil 2016-2018 (document GN-2850) and is aligned with the following strategic areas: (i) increase productivity and competitiveness; (ii) reduce inequity and improve public services; and (iii) strengthen institutions at the three levels of government (federal, state, and municipal). This operation is also consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and the Corporate Results Framework 2016-2019 (document GN-2727-6), under the challenge of social inclusion and equality, as it will contribute to eradicate extreme poverty, provide inclusive infrastructure, and support government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. The program is aligned with the crosscutting area of sustainability and climate change, as it will finance sustainable and resilient urban infrastructure, proposing a set of environmental conservation and reclamation activities in protected areas for flood protection and river bank reclamation.
- 1.17 Approximately 19% of the operation's resources are associated with specific climate change mitigation and adaptation measures—8% and 11%, respectively—in keeping with the joint [methodology](#) of the multilateral development banks for estimating climate finance. These funds contribute to the IDB Group's goal of increasing the financing of climate change-related projects to 30% of total approvals by the end of 2020. The operation is also consistent with (i) the Urban Development and Housing Sector Framework Document (document GN-2732-6), by improving the maintenance, coverage, quality, and environmental sustainability of urban infrastructure and services and optimizing the operations of the institutions that govern and support them; (ii) the Decentralization and Subnational Governments Sector Framework Document (document GN-2813-8), by increasing tax revenue intake; (iii) the Transportation Sector Framework Document (document GN-2740-7), by improving the road systems of the cities through the construction, rehabilitation, and maintenance of urban infrastructure including roads, bicycle paths, and pedestrian infrastructure; and (iv) the Energy Sector Framework Document (document GN-2830-5), by supporting energy sustainability through more efficient energy use in the municipal public sector.
- 1.18 **The program's strategy.** The program will finance technically viable municipal urban projects that are included in the respective local development plans (see paragraph 1.7). It will support strengthening of the financial and planning capacity of municípios, to ensure the sustainability of investments. As a long-term strategy, studies will be financed to ensure that the municipal financing system is sustainable (see paragraph 1.23).
- 1.19 **Consistency with the Public Utilities Policy as applied to the electricity sector.** The operation satisfies the financial sustainability and economic evaluation conditions of the Bank's Public Utilities Policy (document GN-2716-6) and is consistent with its principles, given that: (i) the electricity sector's rate structure ensures that all service delivery costs are recovered, while seeking to deliver service at the lowest possible cost; (ii) there is a regulatory framework and institutions to promote the reliability, quality, and efficiency of electricity service;

and (iii) the program is expected to have manageable environmental and social impacts, as well as a specific strategy to address environmental and social risks ([optional link 9](#)).

B. Objectives, components, and cost

- 1.20 The program's general objective is to contribute to sustainable reduction of the urban infrastructure deficit in the municípios of Paraná. The specific objectives are: (i) to improve the municípios' fiscal and financial management and urban planning capacity; (ii) to increase the coverage and quality of infrastructure for urban basic services; and (iii) to increase the operational efficiency of the System for Financing Actions in the Municípios of the State of Paraná (SFM). The program envisages the activities described below, under the following components.²⁰
- 1.21 **Component I. Modernization of municipal management (US\$32.35 million).** This component will finance actions to: (i) improve financial and tax management through the updating of tax codes, real estate cadastres, the property valuation index, and the purchase of financial and tax management systems and computer hardware; (ii) strengthen urban planning and management through the revision of legislation, updating of master plans, preparation of master plans for basic environmental sanitation and urban mobility, and the purchase of environmental management and geographic information systems and computer hardware; (iii) teach courses on urban planning and management for municipal public employees; and (iv) support modernization in the area of e-government in municípios with populations over 50,000 through the purchase of software for online services and strengthening of transparency, preparation of information technology master plans, and purchase of computer hardware.
- 1.22 **Component II. Basic infrastructure (US\$189.39 million).** This component will finance projects for: (i) neighborhood improvement and local urban renewal through investments to urbanize arterial thoroughfares and feeder roads, as well as local roads, including paving and construction of storm drainage systems, sidewalks with universal accessibility, public lighting, road signs and markings, bicycle paths, and urban furniture;²¹ (ii) environmental conservation and reclamation through investments in parks and greenspace, preservation of "fundos de vale" (valley bottoms),²² recovery of degraded urban areas, and control of urban erosion; (iii) social services facilities, such as basic health care units and childhood education centers; (iv) sports and recreation, including sports fields, gymnasiums, public squares, and parks; and (v) urban mobility, including urban bus terminals in municípios with populations over 50,000, or municípios that are part of a metropolitan region, and intermunicipal terminals for the remaining municípios.
- 1.23 **Component III. Strengthening of the SFM (US\$15 million).** This component will finance: (i) studies to update digital urban cartographic databases; (ii) creation of new mechanisms for financing municipal projects, including public-private models

²⁰ All of the activities to update or implement systems include training.

²¹ Urban furniture is all the equipment installed in public places for use by pedestrians, including bus stops, benches, trash bins, information signage, treescaping, etc.

²² "Fundos de vale" are the banks of river and stream watersheds; conservation and reclamation measures are usually limited to the area nearest the watercourse.

for urban investments and using instruments established in the City Statute; (iii) improvement of monitoring and rating systems, to assess the individual risks of the municípios; (iv) consulting services to modernize Paranacidade's information technology platform, to allow Internet access; (v) implementation of a geographic information system to identify and prioritize municipal infrastructure investment needs; and (vi) program evaluation (see paragraph 3.15).

- 1.24 The total cost of the program is US\$236,740,100, to be distributed according to the sources and investment categories listed in Table 1. The loan proceeds will be available to the municípios in the order requests are received. Although there will be no restrictions on demand, in order to ensure equity among the municípios, resources under Components I and II will be distributed in two categories, according to the size of the population, borrowing capacity, and requirements for updating master plans.²³

Table 1. Summary of program costs

| Categories | IDB | Local | Total | % |
|--|--------------------|--------------------|--------------------|----------------|
| Component I. Modernization of municipal management | - | 32,350,000 | 32,350,000 | 13.67% |
| Component II. Basic infrastructure | 107,120,000 | 82,270,100 | 189,390,100 | 80.00% |
| Component III. Strengthening of the SFM | 11,250,000 | 3,750,000 | 15,000,000 | 6.33% |
| Total | 118,370,000 | 118,370,100 | 236,740,100 | 100.00% |

C. Key results indicators

- 1.25 The main expected outcomes are:²⁴ (i) increased revenue collection of own taxes; (ii) increased municipal services accessible via Internet; (iii) training of 3,466 municipal public employees; (iv) increased property values in the project target areas (30% in large municípios and 23% in smaller ones); (v) reduction in the infrastructure deficit of the urban road network; (vi) increased coverage by the basic health care network; (vii) increased coverage of the childhood education network; (viii) increased volume of loans made by the SFM; and (ix) reduction in SFM operating costs. The infrastructure projects are expected to benefit 8.5% of the State's population ([optional link 7](#)), while the training programs will benefit 3,466 municipal public employees ([required link 4](#)). Indicators, baseline values, and annual targets are presented in Annex II, "Results Matrix," and in the monitoring and evaluation plan ([required link 2](#)).
- 1.26 **Economic viability.** To establish the program's economic viability, a cost-benefit analysis was done for representative interventions under each component using an annual discount rate of 12%, or a least-cost/cost-effectiveness approach ([optional link 1](#)). This evaluation looked at all projects in Paranacidade's existing portfolio as of January 2014. The portfolio analyzed represents around 60% of the

²³ As detailed in [required link 1](#), 49% of the Component I funds were reserved for municípios with populations under 50,000. For Component II, 60% was reserved for municípios with more than 50,000 inhabitants, since this is the percentage of the state's population living in such municípios.

²⁴ The program investments depend on demand from the municípios. Thus, the expected outcomes and outputs were projected based on the history of projects executed through Paranacidade from 2013 to 2017.

FDU portfolio for 2014. Additionally, to define the outcome indicators and validate the economic analysis, the sample was supplemented with the ex post outcomes of 64 projects executed during the last five years.²⁵

- 1.27 For the local road paving projects, an economic cost-benefit analysis was done, based on a sample of 10 projects. The benefits were calculated using a hedonic price methodology, finding that all of the projects have an internal rate of return (IRR) above 40%. The project with the lowest cost-benefit ratio had a value of 2.53. The sensitivity analysis showed that the average IRR will be 37%, even if the number of occupied lots is decreased by 36%, and that the average IRR will be 45%, even if the costs increase by 30%. For arterial thoroughfares and feeder roads, a hedonic price methodology was used with a sample of four projects. The lowest IRR obtained was 15%, and the lowest cost-benefit ratio was 1.13. The sensitivity analysis showed that the IRR will be 22%, even with a 30% decrease in benefits, and 25%, assuming a 30% increase in costs.
- 1.28 The evaluation of parks employed a property valuation methodology to estimate the benefits. An IRR of 31.8% was obtained, with a benefit-to-cost ratio of 1.69. The sensitivity analysis showed that the IRR will be 18%, even with a decrease of up to 6.7% in benefits, and 21%, even if costs increase by 30%. The projects for social assistance centers, health posts, and childhood education centers were analyzed using a cost-effectiveness methodology.
- 1.29 **Eligibility criteria.** In order to update the eligibility criteria used in the previous program, the results of the cost-benefit and cost-effectiveness analyses of the representative samples were used to establish the maximum investment values for each type of project. The eligibility criteria are described in detail in the program Operating Regulations (see paragraph 3.7) and summarized in Table 2. Projects that include involuntary resettlement are not eligible.

Table 2. Summary of program eligibility criteria

| Type of intervention | Methodology | Eligibility criterion | |
|--------------------------------|--------------------|-----------------------|-----------------------------------|
| | | Unit | Maximum value ²⁶ (R\$) |
| Paving of urban roads | Cost-benefit | Investment per lot | 10,200.43 |
| Education – child care centers | Cost-effectiveness | Cost/m ² | 1,821.68 |
| Health care center | Cost-effectiveness | Cost/m ² | 2,383.30 |
| Public squares | Cost-effectiveness | Cost/m ² | 206.41 |
| Sports field | Cost-effectiveness | Cost/m ² | 338.41 |

- 1.30 An economic evaluation needs to be submitted for environmental conservation and reclamation and urban or intermunicipal bus terminal projects, and the project will be eligible if the IRR is above 12%.

²⁵ Paran cidade's total portfolio as of January 2014 included 10 local roads, 4 main roads, and 4 parks. The sample was supplemented with 43 social assistance resource centers, 7 child care centers, 5 health care centers, and 9 sports fields, for a total of 82 projects analyzed. The program is expected to finance an average of 130 operations per year. The economic viability study ([optional link 1](#)) presents details of the projects selected for the sample.

²⁶ All values for maximum cost per unit will be updated annually using the construction price adjustment index for Paran , according to the procedure established in the program Operating Regulations.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 Financing will be provided in the form of an investment loan, with one specific-investment component (Component III), and two other components (Components I and II) with features of a global credit operation, since the loan proceeds will be used to provide municípios with subloans to finance similar, independent projects, according to the eligibility criteria set in the program Operating Regulations (see paragraph 3.7). The program has a total cost of US\$236,740,100, with US\$118,370,000 to be financed by the Bank from the Ordinary Capital resources, and the other US\$118,370,000 to be contributed by the State of Paraná, as the local counterpart. Based on the experience of Paranacidade, whose average annual portfolio was US\$78.8 million over the last five years (2013-2017), it is projected that the program could finance an average of 130 operations per year, corresponding to an execution period of four years, running from the effective date of the loan contract. The disbursement schedule is summarized in Table 3.

Table 3. Disbursement schedule

| Source of financing | Year 1 | Year 2 | Year 3 | Year 4 | Total |
|---------------------|------------|------------|------------|------------|-------------|
| IDB | 27,862,000 | 34,355,000 | 29,743,000 | 26,410,000 | 118,370,000 |
| State of Paraná | 18,390,000 | 31,408,000 | 36,417,000 | 32,155,100 | 118,370,100 |
| Total | 46,252,000 | 65,763,000 | 66,160,000 | 58,565,000 | 236,740,100 |
| % | 20.0% | 28.0% | 28.0% | 25.0% | 100.0% |

- 2.2 **Recognition of expenditures against the counterpart.** The Bank may recognize, against the local counterpart, up to US\$23.7 million (20% of the estimated local counterpart amount) in eligible expenditures incurred by the borrower prior to the loan approval date associated with urban road paving works including storm drainage, urbanization, road signs and markings, and universal accessibility, as well as public squares, child care centers, schools, sports gymnasiums, and bus terminals, provided that they conform to requirements substantially similar to those established in the loan contract. Such expenditures must have been incurred on or after 16 February 2018 (entry date of the loan into the Bank's project pipeline), but shall not include expenditures incurred more than 18 months before the loan approval date. There will be no retroactive financing of expenditures.
- 2.3 **Financial analysis.** A fiscal sustainability analysis of the State Urban Development Fund (FDU) was done under different scenarios. The study concluded that the fund is managed in a sustainable manner, and that the loan rates are sufficient to keep FDU's capitalization levels stable and to cover the operating and administrative costs of Paranacidade and Fomento Paraná. As part of the study, an analysis was done of the lending terms and their competitiveness in relation to other sources of finance available to the municípios. The current financing matrix reflects and is consistent with the rates and terms used in similar transactions by public and private banks that finance municípios.

B. Environmental and social safeguard risks

- 2.4 Although the previously approved operation was classified as category “B,” a detailed analysis of the new operation and the System for Financing Actions in the Municípios of the State of Paraná (SFM) revealed that the project execution mechanism has financial intermediation features. Accordingly, the operation has been classified as category “B.13” under the Environment and Safeguards Compliance Policy (Operational Policy OP-703). During its preparation phase, the program’s potential environmental and social risks were assessed, as was Paranacidade’s capacity to manage them. Considering this analysis and the execution on prior programs, this operation was classified as moderate risk (FI-2). Under Resolution 051/2009/SEMA, no state environmental permit is required for the type of interventions planned under the program. For program execution, Paranacidade will implement the environmental and social management plan (ESMP) ([optional link 8](#)), which describes the arrangements and measures to control, prevent, and mitigate the potential adverse impacts identified in the environmental and social management report ([ESMR](#)). The specific requirements are described in the program Operating Regulations and the ESMR.

C. Fiduciary risks

- 2.5 In 2018, the Institutional Capacity Assessment Platform (ICAP) methodology was applied to the program management unit (PMU), to evaluate the executing agency’s fiduciary capacity. The evaluation indicated that the executing agency has extensive experience in program execution and institutional capacity in all the areas examined.
- 2.6 In terms of fiduciary risks, the risk of execution delays due to possible changeovers in state and municipal administrations participating in the program was rated as “medium.”²⁷ This risk will be mitigated via: (i) an increased number of Paranacidade technical and management staff to assist the municípios; (ii) training for the appointed members of the execution team, particularly regarding management in the municípios; (iii) preparation of Operating Regulations for this operation that include Bank policies and procedures and those applicable to the participating municípios (see paragraph 3.7); and (iv) adaptation of Paranacidade’s financial/accounting control system, to bring it into line with the changes that have occurred in the Bank’s policies since the conclusion of the previous operation (see paragraph 3.10). The actions taken to mitigate these risks will include the following: (i) an increased number of Paranacidade technical and management staff to assist the municípios; and (ii) training for the appointed members of the execution team, particularly regarding management in the municípios (for more detail, see Annex III).
- 2.7 Paranacidade will be responsible for program execution, while Fomento Paraná will be involved in administering the financial resources of Components I and II as the fiscal agent for those program components. The program Operating Regulations describe the operation’s institutional and financial execution arrangements, taking into account: (i) the soundness of the model already used;

²⁷ The changes could occur as a result of the 2020 municipal election. There could also be changes in management at the state level as a result of the election that will take place in 2018.

(ii) compatibility and compliance with the general guidelines established in the Bank's procurement policies and the municípios' compliance with them; (iii) audits to be performed by the State of Paraná Audit Office (TCE/PR); and (iv) the fact that there are no cases of nonpayment by municípios accepting funds from the FDU. To accommodate the fund's liquidity requirements, disbursements would be made in tranches with ex post review of all program procurements and verification of Component I and Component II expenditures (see paragraph 3.8), associated with actions and works to be executed by the municípios with FDU financing.

D. Other project risks

- 2.8 Another risk identified, identified as medium, is the possibility that not all of the available resources will be used if the FDU's lending terms are uncompetitive with other sources of finance available on the domestic market. This risk will be mitigated through actions to keep operating costs down and thus reduce the spread. Component III finances activities to improve the operating costs of the SFM.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Execution mechanism.** The borrower will be the State of Paraná, and the Federative Republic of Brazil will be the guarantor of the financial obligations associated with the loan.
- 3.2 The state will execute the program, acting through Serviço Social Autônomo Paranaícidade, with the participation of Agência de Fomento do Paraná S.A. [Paraná Development Agency] (Fomento Paraná), as fiscal agent for program Components I and II.
- 3.3 Paranaícidade will be responsible for the general coordination and for direct execution of the activities under Component III. The Components I and II activities will be executed through subloans to be issued by Fomento Paraná to the program beneficiary municípios. The resources for these subloans will come from the capitalization of Fomento Paraná by the State of Paraná with program resources. Fomento Paraná will be responsible for signing subloan contracts with the beneficiary municípios and for making the respective disbursements, among other responsibilities described in the program Operating Regulations. The municípios, in turn, will be responsible for implementation of the projects under Components I and II.²⁸
- 3.4 Paranaícidade will establish a program management unit (PMU), comprised of Paranaícidade technical staff, with the following internal administrative units: (i) the Program Direction Unit (PDU); and (ii) the Program Execution Unit (PEU), supported by four advisory areas: executive, legal, technical, and institutional. In addition, the program will receive support from Paranaícidade's six regional support units.

²⁸ Similar to the execution arrangement used in the previous operation, BR-0374 (loan 1405/OC-BR).

- 3.5 The PDU will have a general coordinator who will report directly to the Executive Superintendent of Paranácidade. The general coordinator will have the following duties: (i) coordinate the program's technical and administrative activities at the central and decentralized levels; (ii) approve the program's physical and financial programming, procurement plans, status reports, and disbursement requests, and account for program expenditures; and (iii) coordinate the program evaluation.
- 3.6 The PDU will receive technical support from the PEU, which will be responsible for managing, monitoring, and evaluating program execution, with the following duties: (i) investment planning and budget allocation with the State of Paraná Department of Urban Development (SEDU); (ii) verification of compliance with the eligibility criteria for projects; (iii) evaluation of the terms of reference for contracting construction plans and services for the works prepared by the municípios; (iv) procurement of goods and services for program Component III; (v) supervision of works inspection and service contracts commissioned by the municípios; (vi) coordination and supervision of environmental aspects of the program; (vii) authorization of payments for expenses related to program execution; (viii) physical, financial, and accounting control, submission of disbursement requests, accountability, and preparation of the corresponding reports; (ix) monitoring of outcomes and preparation of the program monitoring report (PMR); and (x) preparation of the annual work plan (AWP) and Procurement Plan.
- 3.7 The [program Operating Regulations](#) describe the duties, responsibilities, and coordination arrangements (among Paranácidade units and between Paranácidade and Fomento Paraná) associated with program execution, and will include the model loan contract to be used by Fomento Paraná as an annex, and establish the eligibility criteria for municípios, as well as other conditions.²⁹ **As a special contractual condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence to the Bank that the program Operating Regulations and environmental and social management plan (ESMP) have entered into force, by SEDU administrative order published in the official gazette of the State of Paraná.**
- 3.8 **Advance of funds.** The program will operate with resources advanced by the Bank to meet liquidity requirements for a period of up to six months. Advances will be requested by the State of Paraná, through the PMU, and will be accompanied by a financial plan that reflects the funding needs for the period in question. The PMU will submit an initial financial plan to the Bank containing the disbursement schedule for the entire execution period. This initial plan will serve as the basis for the first plan covering the initial six months of execution; this will, in turn, be used to calculate the first advance of funds. For future advances, it will be necessary to account for at least 80% of the cumulative funds advanced and requiring supporting documentation, and submit a new financial plan for the following period. Component I and II resources³⁰ intended for subloans will be regarded as justifiable expenditures, once Fomento Paraná actually onlends those resources to the

²⁹ Includes the model instrument for municípios to participate in the program, as well as the model loan contract to be signed between the municípios and Fomento Paraná, on the terms agreed upon with the Bank.

³⁰ Components I and II represent 94% of program resources.

municípios, documented by a previously signed subloan contract. In such cases, Fomento Paraná's onlending of resources to a município will be regarded as the expenditure item for accountability purposes.

- 3.9 Given that the fiduciary risk assessment for the program established that the executing agency has had extensive and positive experience with the Bank, and that the volume of subloan expenditure justifications is very high, review of the supporting documentation for onlending and expenditures incurred by the municípios, as well as proper use of the loans made, will be on an ex post basis, both through the annual audit (see paragraph 3.13) and through the reviews by random sampling performed by the Bank as part of its normal supervision work (see paragraph 3.12). The ex post review mitigates the possibility of any irregularity or ineligible expenditure. In the event that an invalid expenditure is identified, the corresponding adjustment or reimbursement of the funds at issue will be requested.
- 3.10 **Accounting/financial system.** Paranácidade has an effective computerized system that was used for administration of the previous Bank operation. However, it must be updated to reflect current Bank policies and bring it into line with Bank requirements regarding accounting, financial, and procedural records and generation of the reports requested by the Bank.
- 3.11 **Procurement.** The procurement of works, goods, and related services and the contracting of consulting services will be subject to the "Policies for the procurement of works and goods financed by the Inter-American Development Bank" (document GN-2349-9) and the "Policies for the selection and contracting of consultants financed by the Inter-American Development Bank" (document GN-2350-9). The procurements of works, goods, and services are identified in the Procurement Plan, and will be conducted in accordance with Annex III, "Fiduciary Agreements and Requirements."
- 3.12 **Program supervision.** The risk analysis rates the operation as being of moderate risk. For this type of risk, and considering the nature of the program and Paranácidade's extensive experience with the Bank, review of the supporting documentation for disbursements and expenditures incurred with the loans received by the municípios will be on an ex post basis, as will review of the procurement procedures associated with Components I and II. Only the Component III processes indicated in the Procurement Plan, to be financed in whole or part by the Bank, and all processes with an estimated cost above the thresholds for international competitive bidding (ICB) and for direct contracting, will be subject to ex ante review.
- 3.13 **Audits.** External audits will be conducted by the State of Paraná Audit Office (TCE/PR)³¹ or an independent audit firm accredited by the Bank. Management has agreed that the PMU may deliver the program's audited financial statements annually, within 120 days after the close of the respective fiscal year or after the last disbursement.

³¹ The State of Paraná Audit Office (TCE/PR) is certified by the Bank to conduct audits in Brazil.

B. Summary of arrangements for monitoring results

- 3.14 **Monitoring and supervision system.** The PMU will use the Multiyear Execution Plan, the AWP, the Procurement Plan, and the Results Matrix to monitor program execution. The PMU will prepare six-monthly status reports, including information necessary to complete the PMR. The PMU will have a management information system that records all program contracts and expenditures and generates data for program monitoring and supervision.
- 3.15 **Program evaluation.** The program will evaluate results by means of three evaluations: initial, midterm, and final. The monitoring and evaluation indicators are listed in the monitoring and evaluation plan ([required link 2](#)). A reflexive evaluation methodology will be used, comparing changes in the Results Matrix's outcome indicators before and after the intervention. The purpose of the evaluation is to establish whether the program has achieved the expected outcomes and the socioeconomic and environmental benefits projected at the time of approval. The evaluation methodology, work plan, and budget were agreed upon with Paranacidade and are described in the monitoring and evaluation plan. An amount of US\$200,000 has been allocated for the evaluation. An ex post economic evaluation is also planned, reviewing a sample of projects analyzed on an ex ante basis, to determine whether the projected economic outcomes occurred. The ex post evaluation methodology is identical to the one used in the initial evaluation.

| Development Effectiveness Matrix | | |
|--|---|---|
| Summary | | |
| I. Corporate and Country Priorities | | |
| 1. IDB Development Objectives | Yes | |
| Development Challenges & Cross-cutting Themes | -Social Inclusion and Equality -Climate Change and Environmental Sustainability | |
| Country Development Results Indicators | -Property value within project area of influence (% change)* -Roads built or upgraded (km)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Public registries strengthened (#)* | |
| 2. Country Development Objectives | Yes | |
| Country Strategy Results Matrix | GN-2850 | i) Increase productivity and competitiveness; ii) Reduce inequity and improve public services; iii) Strengthen government institutions at the federal, state, and municipal levels. |
| Country Program Results Matrix | | The intervention is not included in the 2018 Operational Program. |
| Relevance of this project to country development challenges (If not aligned to country strategy or country program) | | |
| II. Development Outcomes - Evaluability | | |
| | | Evaluable |
| 3. Evidence-based Assessment & Solution | 7.7 | |
| 3.1 Program Diagnosis | 3.0 | |
| 3.2 Proposed Interventions or Solutions | 1.7 | |
| 3.3 Results Matrix Quality | 3.0 | |
| 4. Ex ante Economic Analysis | 10.0 | |
| 4.1 Program has an ERR/NPV, or key outcomes identified for CEA | 3.0 | |
| 4.2 Identified and Quantified Benefits and Costs | 3.0 | |
| 4.3 Reasonable Assumptions | 1.0 | |
| 4.4 Sensitivity Analysis | 2.0 | |
| 4.5 Consistency with results matrix | 1.0 | |
| 5. Monitoring and Evaluation | 8.1 | |
| 5.1 Monitoring Mechanisms | 2.2 | |
| 5.2 Evaluation Plan | 6.0 | |
| III. Risks & Mitigation Monitoring Matrix | | |
| Overall risks rate = magnitude of risks*likelihood | Medium | |
| 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.13 | |
| IV. IDB's Role - Additionality | | |
| The project relies on the use of country systems | | |
| Fiduciary (VPC/FMP Criteria) | Yes | Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, Comparison, Contracting Individual Consultant, National Public Bidding. |
| Non-Fiduciary | Yes | Monitoring and Evaluation National System, Environmental Assessment National System. |
| The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions: | | |
| 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 | | |

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The POD presents the problems to be addressed by the project as well as the factors causing them. Empirical evidence backing the infrastructure deficits for the majority of the works in areas of project involvement are provided. The results matrix has vertical logic. All indicators are SMART and have means of verification. Indicators have baselines and targets. The infrastructure component was analyzed using a cost-benefit analysis for the roads and parks works, and a cost-effectiveness analysis for the works in social and sports infrastructure and bus terminals. For the cost-benefit analysis the economic benefits were adequately quantified and the costs reflect real resource costs to the economy. The assumptions used were presented and a sensitivity analysis was performed on the assumptions that could affect the economic returns. The project has a monitoring and evaluation plan. The evaluation plan follows the DEM guidelines. The operation will be evaluated using a reflexive methodology and an ex post cost-benefit analysis.

RESULTS MATRIX

| | |
|-------------------|--|
| Objective: | The program's general objective is to contribute to sustainable reduction of the urban infrastructure deficit in the municípios of Paraná. The specific objectives are: (i) to improve the municípios' fiscal and financial management and urban planning capacity; (ii) to increase the coverage and quality of infrastructure for urban basic services; and (iii) to increase the operational efficiency of the System for Financing Actions in the Municípios of the State of Paraná (SFM). |
|-------------------|--|

EXPECTED OUTCOMES

| Indicators | Unit of measure | Baseline | Baseline year | Final target (2022) ¹ | Source/Mean of verification | Comments |
|---|--------------------|----------|---------------|----------------------------------|--|----------|
| Outcome 1: Modernization of municipal management | | | | | | |
| Municipal tax revenue intake – IPTU ² (G-1) | R\$ million | 1,498.44 | 2018 | 2,625.18 | SICONFI – National Treasury Department (STN) | |
| Municipal tax revenue intake – IPTU ³ (G-2) | R\$ million | 303.65 | 2018 | 492.36 | SICONFI – National Treasury Department (STN) | |
| Municipal tax revenue intake (ISS) ⁴ (G-1) | R\$ million | 2,403.32 | 2018 | 3,362.57 | SICONFI – National Treasury Department (STN) | |
| Outcome 2: Basic Infrastructure | | | | | | |
| Increased property values in group G-1 municípios | R\$/m ² | 1,463.90 | 2018 | 1,912.35 | PMU/PEU – Paranácidade/Paranácidade technical report | |
| Increased property values in group G-2 municípios | R\$/m ² | 1,135.90 | 2018 | 1,408.49 | PMU/PEU – Paranácidade/Paranácidade technical report | |

¹ The program investments depend on demand from the municípios. Thus, the expected outcomes and outputs were projected based on the history of projects executed through Paranácidade during the last five years.

² Urban land and property tax (IPTU).

³ Urban land and property tax (IPTU).

⁴ Services tax (ISS).

Note: (G-1): Municípios with populations over 50,000 (32 municípios) – (G-2): Municípios with populations under 50,000 (367 municípios)

| Indicators | Unit of measure | Baseline | Baseline year | Final target (2022) ¹ | Source/Mean of verification | Comments |
|---|-----------------|------------|---------------|----------------------------------|--|--|
| Increased basic health care coverage in group G-1 municípios | Families | 11,876,968 | 2018 | 12,236,968 | Ministry of Health/DATASUS – SIAB Coverage of the Family Health Program (PSF) | Refers to families in an area served by a basic health care unit with family health professionals. |
| Increased basic health care coverage in group G-2 municípios | Families | 11,963,585 | 2018 | 12,143,585 | Ministry of Health/DATASUS – SIAB Coverage of the Family Health Program (PSF) | Refers to families in an area served by a basic health care unit with family health professionals. |
| Increased childhood education coverage in group G-1 municípios | Registrations | 188,889 | 2018 | 259,251 | INEP – Ministry of Education/School Census/IBGE Census/2010 | |
| Increased childhood education coverage in group G-2 municípios | Registrations | 167,670 | 2018 | 220,761 | INEP – Ministry of Education/School Census/IBGE Census/2010 | |
| Percentage of G-1 urban roads in the State of Paraná without infrastructure (paving, sidewalks, signs and markings) | m/per lot | 1.82 | 2018 | 1.71 | SEDU-Paranácidade and COPEL | |
| Percentage of G-2 urban roads in the State of Paraná without infrastructure (paving, sidewalks, signs and markings) | m/per lot | 4.23 | 2018 | 4.09 | SEDU-Paranácidade and COPEL | |
| Outcome 3: Strengthening of the SFM | | | | | | |
| Increase in annual volume of SFM lending operations | R\$ million | 224.26 | 2018 | 274.26 | PMU/PEU - Paranácidade/SAM - SGF | |
| Percentage operating cost per loan made to municípios | % | 10.44 | 2018 | 9.96 | PMU/PEU - Paranácidade/SAM – SGF* | |

OUTPUTS

| Output | Unit of measure | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Final target ¹ | Means of verification | Comments |
|--|-----------------|----------|---------------|--------|--------|--------|--------|---------------------------|--|----------|
| Component I – Modernization of municipal management | | | | | | | | | | |
| Multi-use cadastre updated (G-1) | Cadastre | 0 | 2018 | 0 | 2 | 3 | 4 | 9 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Fiscal cadastre updated (G-2) | Cadastre | 0 | 2018 | 0 | 3 | 3 | 4 | 10 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Master plan updated (G-1) | Plan | 0 | 2018 | 0 | 2 | 2 | 4 | 8 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Master plan updated (G-2) | Plan | 0 | 2018 | 0 | 14 | 16 | 20 | 50 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Sector plan prepared (sanitation and urban mobility) (G-1) | Plan | 0 | 2018 | 0 | 3 | 5 | 6 | 14 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Sector plan prepared (urban mobility) (G-2) | Plan | 0 | 2018 | 0 | 10 | 10 | 10 | 30 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |

| Output | Unit of measure | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Final target ¹ | Means of verification | Comments |
|---|-----------------|----------|---------------|--------|--------|--------|--------|---------------------------|---|----------|
| Page implemented with municipios' online services (IPTU, ISS, construction potential questions) (G-1) | Unit | 0 | 2018 | 0 | 1 | 1 | 2 | 4 | PMU/PEU – Paranácidade Certificate of acceptance/SAM Verification by number of times the online system was accessed | |
| Training workshops held (G-1) | Workshops | 0 | 2018 | 3 | 7 | 7 | 7 | 24 | PMU/PEU – Paranácidade Participants' list – 384 employees trained | |
| Training workshops held (G-2) | Workshops | 0 | 2018 | 21 | 21 | 21 | 41 | 104 | PMU/PEU – Paranácidade Participants' list – 3,082 employees trained | |
| Component II – Basic infrastructure | | | | | | | | | | |
| Urban roads paved (G-1) | Km | 0 | 2018 | 50 | 100 | 100 | 50 | 300 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Urban roads paved (G-2) | Km | 0 | 2018 | 33 | 67 | 67 | 33 | 200 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Public squares built (G-1) | Unit | 0 | 2018 | 1 | 1 | 1 | 1 | 4 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |

| Output | Unit of measure | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Final target ¹ | Means of verification | Comments |
|---|-----------------|----------|---------------|--------|--------|--------|--------|---------------------------|--|----------|
| Public squares built (G-2) | Unit | 0 | 2018 | 2 | 2 | 3 | 3 | 10 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Bus terminal built (G-1) | Unit | 0 | 2018 | 1 | 0 | 0 | 1 | 2 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Bus terminal built (G-2) | Unit | 0 | 2018 | 2 | 2 | 2 | 2 | 8 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Parks prepared for use (G-1) | Unit | 0 | 2018 | 1 | 2 | 1 | 1 | 5 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Parks prepared for use (G-2) | Unit | 0 | 2018 | 2 | 3 | 3 | 2 | 10 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Basic health care units built (G-1) | Unit | 0 | 2018 | 2 | 10 | 10 | 8 | 30 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Basic health care units built (G-2) | Unit | 0 | 2018 | 2 | 5 | 4 | 4 | 15 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Municipal childhood education centers built (G-1) | Unit | 0 | 2018 | 2 | 10 | 10 | 8 | 30 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |

| Output | Unit of measure | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Final target ¹ | Means of verification | Comments |
|--|-----------------|----------|---------------|--------|--------|--------|--------|---------------------------|--|----------|
| Municipal childhood education centers built (G-2) | Unit | 0 | 2018 | 2 | 5 | 4 | 4 | 15 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Sports facilities built (G-1) | Unit | 0 | 2018 | 5 | 10 | 10 | 5 | 30 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Sports facilities built (G-2) | Unit | 0 | 2018 | 3 | 7 | 6 | 4 | 20 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| Component III – Strengthening of the SFM | | | | | | | | | | |
| Digital urban cartographic databases developed | Baseline | 0 | 2018 | 0 | 318 | 81 | 0 | 399 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| System developed for diagnostic assessment of the infrastructure and public services of municípios | System | 0 | 2018 | 0 | 0 | 0 | 1 | 1 | PMU/PEU – Paranácidade Certificate of acceptance/SAM (SEDU-Paranácidade Interactivo) | |
| Município risk rating system developed | System | 0 | 2018 | 0 | 1 | 0 | 0 | 1 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |
| New municipal project financing facilities developed | Study | 0 | 2018 | 0 | 0 | 1 | 0 | 1 | PMU/PEU – Paranácidade Certificate of acceptance/SAM | |

| Output | Unit of measure | Baseline | Baseline year | Year 1 | Year 2 | Year 3 | Year 4 | Final target ¹ | Means of verification | Comments |
|--|-----------------|----------|---------------|--------|--------|--------|--------|---------------------------|---|----------|
| Loan portfolio management system developed | System | 0 | | 0 | 0 | 1 | 0 | 1 | PMU/PEU – Paranaçidade Certificate of acceptance/SAM (SAM Corporate System) | |

FIDUCIARY AGREEMENTS AND REQUIREMENTS

| | |
|--------------------------|---|
| Country: | Brazil |
| Project number: | BR-L1520 |
| Name: | State Program to Support Urban Development and Municipal Infrastructure Improvements: Paraná Urbano III |
| Executing agency: | State Government of Paraná, acting through Serviço Social Autônomo Paranaense of the State of Paraná Department of Urban Development (SEDU) |
| Fiduciary team: | Leise Estevanato and Marília Santos (VPC/FMP) |

I. EXECUTIVE SUMMARY

- 1.1 The institutional assessment for fiduciary management of the project was based on: (i) the country's current fiduciary context; (ii) results of the assessment of the main fiduciary risks; (iii) institutional analysis; and (iv) prior experience with the two previous Paranaense programs: the Program to Support Urban Development in Paraná – Paraná Urbano I (loan 917/OC-BR) and the Paraná Urbano II Program (loan 1405/OC-BR).
- 1.2 Brazil has robust country fiduciary systems that allow for effective management of administrative, financial, control, and procurement procedures, while observing the principles of transparency, economy, and efficiency. The executing agency's systems related to its planning and organization, execution, and control capacity have a medium level of development, which represents a medium level of risk.
- 1.3 Serviço Social Autônomo Paranaense, created in 1996 under Law 11,498 of the State of Paraná, acting through its program management unit (PMU), has the legal capacity and experience to conduct the project activities, considering that this is the third phase of the Paraná Urbano program. The structure already implemented and established will be used, drawing on the lessons learned from execution of the previous phases.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

- 2.1 The borrower will be the State of Paraná. The program executing agency will be Serviço Social Autônomo Paranaense, which is associated with the State of Paraná Department of Urban Development (SEDU), acting through its program management unit (PMU) responsible for coordination, planning, monitoring, and execution of activities related to the projects and actions financed with Bank resources.
- 2.2 The program will finance technically viable municipal urban projects that are included in a local development plan. It will also support strengthening of the financial and planning capacity of municípios, to ensure the sustainability of the

- financed investments. The fiscal agent responsible for the subloans will be Agência de Fomento do Paraná, S.A. [Paraná Development Agency], which is an independent financial entity of the state associated with the Department of Finance, created by Law 11,741/1997.
- 2.3 Paranacidade has an effective computerized system that was used for administration of the previous operation. However, it must be updated to reflect changes in Bank policies.
- 2.4 Paranacidade will be responsible for coordinating with the other departments and agencies involved in execution, and for fiduciary management and operation, including preparation of the budget, and procedures for the authorization and recognition of expenditures and the corresponding payments.
- 2.5 External oversight of the program is exercised by the Bank-accredited Tribunal de Contas do Estado de Paraná [State of Paraná Audit Office] (TCE/PR), which conducts audits of all state entities and has extensive experience in presenting the audited financial statements required by the Bank.

III. INSTITUTIONAL CAPACITY ASSESSMENT, FIDUCIARY RISK, AND MITIGATION MEASURES

- 3.1 The institutional capacity assessment of the executing agency and main related actors found that Serviço Social Autônomo Paranacidade, acting through the PMU, has a medium level of institutional capacity with experience in executing operations with the Bank.
- 3.2 In terms of fiduciary risks, the risk of execution delays due to possible changeovers in state and municipal administrations participating in the program was rated as “medium.”¹ This risk will be mitigated via: (i) an increased number of Paranacidade technical and management staff to assist the municípios; (ii) training for the appointed members of the execution team, particularly regarding management in the municípios; (iii) preparation of Operating Regulations for this operation that include Bank policies and procedures and those applicable to the participating municípios (see paragraph 3.7 of the loan proposal); and (iv) adaptation of Paranacidade’s financial/accounting control system, to bring it into line with the changes that have occurred in the Bank’s policies since the conclusion of the previous operation.
- 3.3 The following measures will be taken to mitigate these risks: (i) an increased number of Paranacidade technical and management staff to assist the municípios; (ii) training for the appointed members of the execution team, particularly regarding management in the municípios; and (iii) preparation of program Operating Regulations for this operation that include Bank policies and procedures and those applicable to the participating municípios; and (iv) acceptance by the Bank that the actual onlending of resources to the respective município will be regarded as the expenditure item for accountability purposes.

¹ The changes could occur as a result of the 2020 municipal election. There could also be changes in management at the state level as a result of the election that will take place in 2018.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACTS

- 4.1 **Special contractual condition precedent to the first disbursement of the loan proceeds.** Serviço Social Autônomo Paranácidade, acting through its program management unit (PMU) will provide evidence, to the Bank's satisfaction, that the program Operating Regulations and environmental and social management plan (ESMP) have entered into force, by administrative order of the State of Paraná Department of Urban Development (SEDU), published in the official gazette of the State of Paraná.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements for procurement set forth the provisions that apply for execution of any procurement envisaged in the project.
- A. Procurement execution**
- 5.2 **Works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services subject to international competitive bidding (ICB) will be executed using the current standard bidding documents issued by the Bank. Bidding processes subject to national competitive bidding (NCB) will be executed using national bidding documents agreed upon with the Bank.
- 5.3 **Selection and contracting of consultants.** Consulting services contracts will be executed using the standard request for proposals issued by the Bank. The sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services. Contracting will be conducted in accordance with the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (document GN-2350-9).
- 5.4 **Use of country procurement systems.** The "Pregão eletrônico" electronic reverse auction country procurement (sub)system approved by the Bank will be used for the procurement of off-the-shelf goods up to an amount of US\$5 million. Any system or subsystem subsequently approved will be applicable to the operation. The procurement plan and its updates will state that procurement will be executed using approved country systems.
- 5.5 **Advance procurement/retroactive financing.** No advance procurement or retroactive financing is envisaged.

Table 1. Threshold for ICB and international short list

| Method | ICB Works | ICB Goods and nonconsulting services | International short list for consulting services |
|-----------|----------------|--------------------------------------|--|
| Threshold | US\$25 million | US\$5 million | US\$1 million |

Table 2. Main procurements

| Procurement items | Selection method | Estimate date | Estimated amount |
|---|------------------|---------------------|------------------|
| Goods and nonconsulting services | | | |
| Updating cartographic databases | ICB | Second half of 2019 | US\$10 million |

B. Procurement supervision

- 5.6 Procurement will be subject to ex post supervision, except where ex ante supervision is justified. When the country system is used for procurement, the country system will also be used for supervision.
- 5.7 The supervision method must be identified for each selection process. Ex post reviews will be conducted on a twelve-monthly basis in accordance with the project supervision plan. The ex post review reports will include at least one physical inspection visit, selected from among the procurement processes subject to ex post review.

Table 3. Threshold for ex post review

| Works | Goods | Consulting services |
|------------------|----------------|----------------------------|
| NCB and Shopping | NCB and Pregão | Less than US\$1 million |

C. Records and files

- 5.8 The PMU will be responsible for process documentation, and will retain the necessary documentation for supervision and auditing purposes.

VI. FINANCIAL MANAGEMENT

A. Programming and budget

- 6.1 Paranacidade, acting through a program management unit (PMU), will be responsible for coordinating the entire planning process for the execution of activities according to the program execution plan, the budgets, and the annual work plan (AWP). As planning instruments, state entities use the multiyear plan, the Budgetary Guidelines Law (LDO), and the Annual Budget Law (LOA). The budget allocated to the project is part of the LOA.
- 6.2 The program's fiscal agent will be Agência de Fomento do Paraná, which is an independent financial entity of the state affiliated with the Department of Finance that manages the resources of the Fundo Estadual de Desenvolvimento Urbano [State Urban Development Fund] (FDU). The FDU is part of the System for Financing Actions in the Municípios of the State of Paraná (SFM).
- 6.3 The PMU will ensure that the budgetary resources for the project are budgeted annually and earmarked for execution in accordance with the work schedule. The LOA must include the budgetary resources necessary for the program activities, including both the external loan and the local counterpart. Such budgetary resources must be recorded in the year of execution as an external source.

B. Accounting and information systems

- 6.4 Paranacidade has a computerized system that was used for administration of the previous operations financed by the Bank. However, it must be updated to reflect current Bank policies and to bring it into line with Bank requirements regarding accounting, financial, and procedural records and generation of the required reports.

- 6.5 Since 1999 Paranácidade has had a development program management instrument, the Paranácidade Corporate System, which records and tracks each stage of implementation of the activities under its programs.
- 6.6 This Corporate System, which is updated on an ongoing basis, has the following subsystems: Support and Monitoring System; Basic Tables Management System; Financial Management System; Reporting System; Disbursement Request System; and Management Information System.

C. Disbursements and cash flow

- 6.7 The project will use the structure of Agência de Fomento do Paraná to administer the financial resources. Expenditures will be subject to financial and budget execution processes and must be duly recorded in the Paranácidade and state systems.
- 6.8 The IDB funds used to pay program expenditures will be administered via an exclusive account enabling the loan proceeds to be independently identified, including inflows and payments.
- 6.9 Disbursements will be made in U.S. dollars under the advance of funds modality. Advances will be based on a projection of financial resources of up to 180 days. For future advances it will be necessary to account for at least 80% of the cumulative funds advanced and requiring supporting documentation.
- 6.10 Expenditures considered ineligible by the Bank must be repaid from local contribution resources or other resources, at the Bank's discretion, depending on the nature of the ineligibility.
- 6.11 The agreed exchange rate with the executing agency to account for expenditures paid with advances of funds from the loan proceeds will be the internalization rate. To determine the equivalency of expenditures incurred against the local counterpart, or the reimbursement of expenditures chargeable to the loan, the agreed exchange rate will be the rate on the date of the expenditure payment.

D. Internal control and audit

- 6.12 Paranácidade's Internal Control Office will perform internal controls and audits.

E. External controls and reports

- 6.13 External control is exercised by the Tribunal de Contas do Estado de Paraná [State of Paraná Audit Office] (TCE/PR), which audits all state entities, or by a Bank-eligible external audit firm.
- 6.14 Throughout execution, the PMU will deliver the project's audited financial statements annually within 120 days after the close of the respective fiscal year or after the last disbursement.
- 6.15 The content of the reports and opinions to be issued will adhere to the terms of reference prepared by the executing agency and accepted by the Bank, in line with current international auditing standards and other policies and procedures observed by the Bank.

F. Fiduciary supervision plan

6.16 This plan may be amended during execution, depending on how the levels of risk develop, or the need for additional oversight.

Table 4. Supervision plan

| Nature – Scope | Frequency | Responsibility | |
|--|-----------|----------------------|------------------|
| | | Bank | Executing agency |
| Ex post review of disbursements and procurements | Annual | Fiduciary team | PMU – TCE/PR |
| Annual audit | Annual | Fiduciary team | PMU – TCE/PR |
| Review of disbursement requests | Periodic | Fiduciary team | |
| Supervision visit | Annual | Fiduciary specialist | |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Brazil. Loan ____/OC-BR to the State of Paraná. State Program to Support Urban Development and Municipal Infrastructure Improvements: Paraná Urbano III

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Paraná, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the State Program to Support Urban Development and Municipal Infrastructure Improvements: Paraná Urbano III. Such financing will be for the amount of up to US\$118,370,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2018)

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