



Evaluation of PROCIDADES

This report presents the findings of the independent assessment of PROCIDADES—a facility for financing integrated urban interventions by lending directly to Brazilian municipalities. As the Inter-American Development Bank (IDB, or the Bank) moves forward with its strategy of strengthening its engagement with subnational governments, especially among high- and middle-income countries, the PROCIDADES example becomes more relevant.

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Office of Evaluation and Oversight, OVE



Inter-American Development Bank
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ACRONYMS AND ABBREVIATIONS

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ACRONYMS AND ABBREVIATIONS

BNDES	Banco Nacional de Desenvolvimento Econômico e Social (National Development Bank)
CAF	Corporación Andina de Fomento (Latin American Development Bank)
CEF	Caixa Econômica Federal (Federal Public Bank)
COFIEEX	Comissão de Financiamentos Externos (Commission on External Finance)
FRL	Fiscal Responsibility Law (Lei de Responsabilidade Fiscal)
FMM	Fiscal and Municipal Management
PAC	Programa de Aceleração do Crescimento (Program for Growth Acceleration)
TC	Technical cooperation
TSP	Technical support provider (prestador de apoio técnico)
SEAIN	Secretaria de Assuntos Internacionais (Secretary of Internal Affairs)

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Executive Summary

This report presents the findings of the independent assessment of PROCIDADES—a facility for financing integrated urban interventions by lending directly to Brazilian municipalities. As the Inter-American Development Bank (IDB, or the Bank) moves forward with its strategy of strengthening its engagement with subnational governments, especially among high- and middle-income countries, the PROCIDADES example becomes more relevant.

In 2006 the Bank adopted an innovative way of working with Brazil by approving PROCIDADES. With PROCIDADES, the Bank expected to reach a much bigger pool of potential clients at the subnational level, in a moment in which the Bank faced limited space to lend at the federal level in Brazil. Before PROCIDADES, only a few large municipalities in Brazil had the experience of working with international organizations, with typically very large loans. Important aspects of PROCIDADES are the direct lending to municipalities and the integrated and multisectoral approach used in the projects approved under the facility: PROCIDADES aimed at simultaneously targeting different aspects of urban development in each municipality, promoting an integrated view of urban development. Such a view had not yet been consolidated in the majority of Brazilian municipalities.

PROCIDADES was approved at a very particular moment in which a number of factors made it both interesting and feasible. The first factor was medium-sized municipalities' high demand for infrastructure. These municipalities had grown very fast in population and in economic activities during the last decades, but they did not have the resources to address the resulting gap in the supply of infrastructure. In addition, with the enactment of the Fiscal Responsibility Law, for the first time

the municipalities were able to borrow directly from multilateral banks. Another important factor was Brazil's increasing focus on public policies and institutions to regulate urban development—including the creation of a ministry of cities.

The PROCIDADES facility proposal defined an innovative approach of working with municipalities and set out two main objectives: one at the facility level and another for individual projects. At the facility level the goal was “to galvanize the Bank's activities in Brazil at the municipal level and to streamline procedures for project preparation and approval.” Regarding individual projects, “the municipal projects financed through the facility are aimed at improving the quality of life in cities, particularly for low-income populations, and at increasing their economic competitiveness.” The proposal was approved in the amount of US\$800 million, making available up to US\$50 million for each municipality that qualified for a loan. Municipalities with a population between 100,000 and 1 million, with the capacity to finance up to 50% of the project with their own resources, could apply for a loan under the facility.

The Bank, drawing on its previous experience in urban development at the municipal level, correctly identified the main challenges to implementing the PROCIDADES facility: lack of institutional capacity and high transaction costs at the municipality level. The Bank responded to these challenges with a number of strategies to reduce transaction costs and simplify supervision, while providing the necessary support to fragile municipalities: (i) delegation of approval and decentralization; (ii) hiring technical support providers (*prestadores de assistência técnica*, or TSPs); (iii) completely outsourcing project supervision; (iv) developing software for project management; and (v) focusing on institutional strengthening.

Despite all the challenges in implementing the facility, PROCIDADES was successful in increasing the proximity of IDB and the Brazilian municipalities. According to information published at the beginning of 2014, more than 50% of loans for Brazilian municipalities from multilateral development banks are from the IDB, and most of them were approved under PROCIDADES. In addition, the relationship with municipalities is getting stronger over time, as municipalities have been negotiating new projects with the IDB—especially municipalities that have completed or nearly completed PROCIDADES projects, such as Campo Grande, Manaus, and Aracaju. The PROCIDADES proposal, however, anticipated an even larger number of approvals in the first years, which did not happen. In practice, between the launch of PROCIDADES in 2007 until March 31, 2015, 22 projects were approved. Among them, 5 operations were completed and 3 cancelled, 2 have not yet start disbursing, and 12 are being implemented.

The mechanisms designed to reduce operational cost were not completely successful. Virtually none of the mitigation strategies worked as planned, and as a consequence PROCIDADES was not effective in reducing the Bank's transaction

costs. The time between Brazil's approval of projects and IDB's own approval was on average 35.2 months, well above what was expected, in part due to the long process required by the Brazilian government. The average preparation cost per million approved was substantially above the average preparation costs for Bank projects, particularly in Brazil at the municipal level, due to the small amount approved per project. The average supervision cost per amount disbursed was also high and was correlated with the amount approved. In addition, the facility generated a large number of projects that were never approved, adding to the overall cost of PROCIDADES. Overall, PROCIDADES has so far cost the Bank more than US\$12 million, including the charges to the facility, the projects approved and the ones in inventory.

The cost of PROCIDADES should be considered in relation to the benefits of the facility. The gains from PROCIDADES do not come only from the projects approved in the facility, but from the lessons learned, in particular the ones that were extrapolated to municipalities beyond Brazil (as suggested by the Bank's Emerging Sustainable Cities Initiative Proposal) and the increased proximity between IDB and the Brazilian municipalities.

The contracts with the Caixa Econômica Federal (CEF) and other TSPs did not succeed, and this increased supervision costs for the Bank and put heavy burdens on the few Bank staff responsible for PROCIDADES, though it also led to some unanticipated benefits. As the first PROCIDADES projects with CEF started to be implemented, the lack of technical expertise in the CEF team became evident, and the municipalities made clear that they preferred working directly with the Bank, which could bring the necessary technical skills. At the same time PROCIDADES never had the scale to make outsourcing attractive. The high cost and low standards of the TSPs led to a change in strategy and more direct involvement of Bank staff. Interviews with municipal officials suggested that in some cases the presence of the Bank helped the executing agencies promote better standards in the projects, including an increased emphasis on social and environmental safeguards. Additionally, executing agencies pointed to the constant presence of the Bank's specialists and its consultants as a good source of learning and exchange of experiences. Finally, direct supervision increased the Bank's visibility in these municipalities, perhaps partly explaining the continued increase in municipal loans.

Despite the problems at the facility level, the loans have made progress towards their general objective of improving the quality of life of the population of the benefited municipalities, though their actual impact cannot be quantified. The municipalities that seem to have benefitted the most from PROCIDADES are those that had an initial minimum level of institutional capacity, which allowed them to handle the project and further strengthen their ability to work on urban development projects. Though institutional capacity building was an obligatory component in all PROCIDADES

loans, the achievements in this area seemed mixed. Overall, the Bank's highest value-added in PROCIDADES seems to have been the integrated approach and its constant presence during implementation.

Development is costly, and the experience of PROCIDADES illustrates well the potential tradeoff between profitability and development impact for the Bank. Although PROCIDADES failed in the essence of what it was proposing—that is, a mechanism to reach a market in need while maintaining profitability through a substantial reduction in operational costs—it was a relevant experience for the Bank. It has allowed the accumulation of lessons learned and, more importantly, improvements in capacity in a few municipalities, which can now continue working with the Bank at reduced cost. Drawing on the findings of this report, OVE has the following suggestions:

1. When pursuing innovative approaches with subnational governments, start small and put strong emphasis on properly assessing costs and benefits, as well as all potential risks. Innovation is one of the main mechanisms through which the Bank learns, and it should be pursued when conditions allow. However, the likelihood of both success and learning will be strengthened with careful piloting to assess potential gains, associated cost, and potential risks.
2. To promote development in Brazil's medium-sized municipalities, consider forming long-term partnerships with them and linking loan amounts to their levels of capacity. This approach would allow the Bank to support development of municipalities in high need, while reducing the operational costs associated with working with them over time. Higher amounts to municipalities with better capacity would increase the Bank's efficiency. In addition, a long-term view would allow different aspects of urban development to be treated over time in a more integrated way. Finally, long-term involvement might help in dealing with the intrinsic vulnerability of projects that is associated with the political cycle. For this to work, the duration and estimated envelope of the partnership should be clear from the outset, so as to encourage medium-sized municipalities to work with the IDB.
3. Carry out careful institutional analysis early on to identify weaknesses and propose concrete mitigation actions. IDB may also be able to reduce costs to the municipalities by reviewing documentation and implementation processes to eliminate redundant or irrelevant requirements.
4. Allocate substantial resources for institutional strengthening for municipalities with lower institutional capacity. The experience of PROCIDADES shows that the decision to work with weaker municipalities should not be based on profitability but rather on development need. It is challenging and likely to be costly to work with them in the beginning. Bigger loans to municipalities

with stronger institutional capacity and greater debt-sustaining ability may generate cross-subsidies that allow the Bank to reach poorer and weaker municipalities.

5. Create mechanisms to ensure project sustainability. Working more with the community on infrastructure maintenance and stressing sustainability with executing agencies may go a long way.



1

1 Introduction

In 2006 the Inter-American Development Bank (IDB, or the Bank) changed its way of working with Brazil by approving PROCIDADES—a facility for financing integrated urban interventions in Brazilian municipalities. With PROCIDADES, the Bank expected to reach a much bigger pool of potential clients at the subnational level; according to the proposal for the facility, “in addition to large municipalities with sizeable borrowing capacity (which usually have had access to financing), there is also a significant segment of medium-sized cities in Brazil whose financing needs are not being met.”¹ The facility was approved in the amount of US\$800 million, making available up to US\$50 million for each municipality that qualified for a loan. Municipalities with a population between 100,000² and 1 million, with capacity to finance up to 50% of the project with their own resources,³ could apply for a loan under the facility.

The PROCIDADES proposal set out two main objectives, one at the facility level and another for individual projects. At the facility level the goal was “to galvanize the Bank’s activities in Brazil at the municipal level and to streamline procedures for project preparation and approval.”⁴ In fact, PROCIDADES introduced a number of innovations to streamline the municipal project preparation cycle:⁵ (i) simplifying internal project approval processes by decentralizing some important decision-making steps to the country office; (ii) reducing the number of steps in the Bank’s project cycle; (iii) using technical support providers to prepare the technical information for the operations; and (iv) contracting the Caixa Econômica Federal (Brazilian Federal Public Bank, or CEF) to support the country office in supervising and monitoring the projects. This meant that PROCIDADES decentralized the entire responsibility for the individual projects to the country office and outsourced project preparation and supervision to local actors and CEF.⁶ Regarding individual projects, “the municipal projects financed through the facility are aimed at improving the quality of life in cities, particularly for low-income populations, and at increasing their economic competitiveness.”⁷

Important aspects of PROCIDADES are direct lending to municipalities and the integrated and multisectoral approach used in the projects approved under the facility. Before PROCIDADES only large municipalities in Brazil had the experience of working with international organizations, with typically very large loans. For instance, before the approval of the facility IDB had worked with only the following municipalities: São Paulo, Rio de Janeiro, Curitiba, Porto Alegre, Belo Horizonte, Fortaleza, Campinas, and São Bernardo do Campo. Except for Campinas and São Bernardo do Campo—all state capitals with populations above 1 million inhabitants in 2000. Additionally, PROCIDADES aimed at simultaneously targeting different aspects of urban development within each municipality in the program, promoting an integrated view of urban development. Such a view had not yet been consolidated in the majority of Brazilian municipalities, so PROCIDADES had an important role to play in the beneficiary cities.

PROCIDADES was approved at a very particular moment, in which a number of factors made it both interesting and feasible. One factor is the medium-sized municipalities' high demand for infrastructure.⁸ These municipalities had grown very fast in population and in economic activities during the last decades,⁹ but they did not have the resources to address the resulting gap in the supply of infrastructure.¹⁰ While in the 1970s 56% of the population lived in the cities, by the time PROCIDADES was approved already about 80% of the population did so.¹¹ Because of the lack of proper planning, this fast growth has meant critical shortages of the cities' basic services and urban infrastructure. For instance, in the early 2000s, among the 27 metropolitan areas of the country, only 38.6% of the lowest-income quintile had access to sanitation services. Therefore, there was a high demand for projects to develop urban infrastructure.

In addition, there was increasing space for municipalities to borrow directly from multilateral banks. Brazil's fiscal reform efforts of the late 1990s had resulted in the enactment of the *Lei de Responsabilidade Fiscal* (Fiscal Responsibility Law, or FRL) in 2000. Unlike similar laws promulgated in almost all Latin America, the FRL in Brazil is applicable to the federal as well as the state and municipal governments. It sought to consolidate the public finances of all government levels in Brazil,¹² and it stopped credit operations between the different levels of government and with public financial institutions. These changes had two implications. First, they limited the capacity of the federal government to on-lend funds borrowed from a multilateral institution, which had been the prevailing strategy for directing IDB resources to municipalities.¹³ Second, by restricting the lending capacity of public banks they reduced the availability of other sources of credit to municipalities. Until then, most lending for municipalities was financed by either the CEF or the *Banco Nacional de Desenvolvimento Econômico y Social* (BNDES), the Brazilian Development Bank), and both of them soon reached their limit of exposure to operations in the public sector.

Another important factor was Brazil's increasing focus on public policies and institutions to regulate urban development—including the creation of a ministry of cities. In 2001 the enactment of the *Estatuto da Cidade*¹⁴ provided the tools for municipalities to use in their urban development. Among them was the requirement for all municipalities with more than

20,000 inhabitants to develop Urban Master Plans (*Planos Diretores*) to define the rules and principles for land use and urban development within their jurisdictions. Additionally, in 2003 the Ministry of Cities (*Ministério das Cidades*) was created to deal with municipal affairs. It had the responsibility of defining the national policy on urban development in consonance with the other levels of government (states and municipalities). For the first time, Brazil was beginning to treat housing, sanitation, mobility, and other aspects of urban development in an integrated way and under the same institution.

At this moment, the Secretary of International Affairs (*Secretaria de Assuntos Internacionais, or SEAIN*) opened the possibility of allowing multilaterals to work directly at the municipal level. However, while the Government of Brazil approved the strategy of loans to the subnational level, it took a cautious approach. First, SEAIN restricted eligibility: (i) only municipalities above 100,000 inhabitants would be eligible; (ii) municipalities would have to provide at least 50% of the project amount; and (iii) good municipal finances, beyond the requirements of the LRF, would be necessary for SEAIN to authorize the loan.¹⁵

Management has through the years collected lessons learned on PROCIDADES. In particular, the 2013 PROCIDADES self-evaluation¹⁶ found that though the facility increased IDB's proximity to the client, it was less successful at capitalizing key innovations and reducing transaction costs.¹⁷ The self-evaluation concluded that proximity to the client has improved relations with the Bank, and the facility also helped reduce some costs. It also found a high level of satisfaction on the part of clients and a high likelihood of achieving the results expected in each individual loan (according to the opinion of the municipal governments). At the same time, the self-evaluation provided some evidence that the innovative aspects of PROCIDADES were not used in their entirety, and advised a number of adjustments, such as that the Bank should revise the cap used in the loans, allowing for higher loans according to the capacity of the municipality. Additionally, a large number of lessons at the project level have been collected over time in the Observatorio PROCIDADES, the Project Completion Reports of completed projects, and Eguino and Provedello (2014).¹⁸

This report presents the findings of the independent assessment of PROCIDADES, with a focus on accountability. As the Bank moves forward with its strategy of strengthening its engagement with subnational governments, especially among high- and middle-income countries, the PROCIDADES example becomes more relevant. As OVE pointed out in its evaluation of the Bank's involvement with high- and middle-income countries, "IDB's direct engagement with subnational governments through [sovereign-guaranteed] lending has largely been limited to Brazil," but "several countries indicated that IDB could provide significant value-added at the subnational level."¹⁹ PROCIDADES, as a pioneer in promoting the Bank's work at the subnational level, provides valuable lessons regarding what works, how it works, and what challenges need to be overcome in the future. This evaluation has two overarching objectives: to assess PROCIDADES as a lending facility and evaluate the extent to which it achieved its objectives; and, to the extent possible, to assess the projects approved under the facility.



CURITIBA

OBRA

URBANIZAÇÃO E REGULARIZAÇÃO
DA VILA JARDIM ACRÓPOLE



VALOR DA OBRA

R\$ 17.624.896,32

EMPREITEIRA



2 Portfolio Review

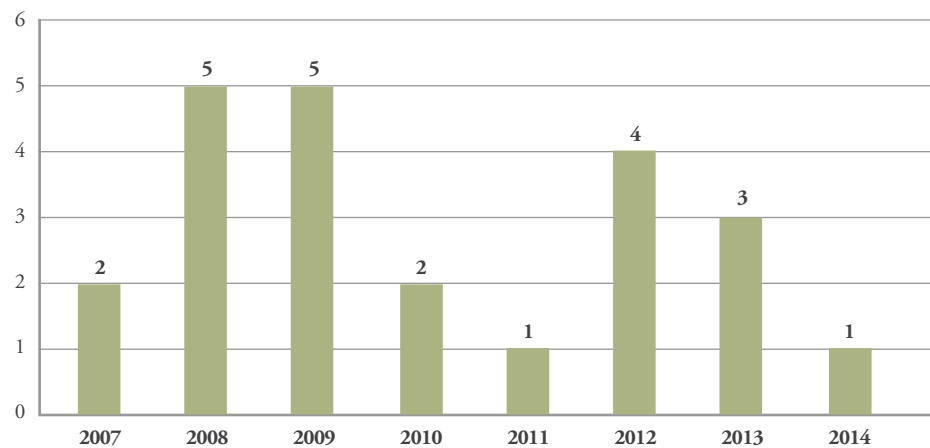
The priority action lines financed under PROCIDADES included investments in integrated urban development and municipal strengthening. For integrated urban development, the municipalities borrowing under the PROCIDADES facility could work on different types of interventions, as long as they were part of the municipal development plan: (i) neighborhood improvements (to address the needs of populations living in low-income neighborhoods through integrated multisector investments in urban infrastructure and services, social services, and establishment of land ownership records systems); (ii) urban rehabilitation and renewal (reverse specific areas' physical and economic deterioration, strengthen their urban functions, and recover their historical and cultural heritage); and (iii) urban consolidation and localized interventions with emphasis on sectors (aiming to complete urban and social infrastructure and services in specific areas of the cities).²⁰ To promote municipal strengthening, PROCIDADES would support financial and tax administration, internal management, provision of municipal services, urban planning, and actions to promote local economic development. (Annex II shows the distribution of investments by project.)

The PROCIDADES proposal anticipated a large number of approvals in the first years, but this did not materialize. In fact, the proposal stated that “because of the number of individual operations expected under PROCIDADES, the size of the portfolio administered by the Country Office in Brazil will double within three years.”²¹ This expectation was due to the high volume of *cartas-consulta*²² received by SEAIN during the first years.²³ In practice, between the launch of PROCIDADES in 2007 and March 31, 2015,²⁴ only 22 projects have been approved (Figure 2.1).²⁵ After 2011, when the last *carta-consulta* for PROCIDADES was approved by COFIEX, SEAIN stopped considering requests for PROCIDADES. At this point the facility seemed to have reached its limit, considering all the *cartas-consulta* approved and directed to IDB.

Figure 2.1

Number of projects approved by year

Note: This figure shows 23 approvals in total, as a loan was approved for Niteroi in 2007, cancelled, and reapproved in 2013.
Source: IDB’s internal information systems.



IDB approvals reached \$512 million—64% of the facility amount—of which about 42% has been disbursed. The origination of new projects and approvals has slowed dramatically in recent years. The total value of the approved portfolio reached almost US\$1 billion in 2014, of which 53% was financed by the IDB (US\$512 million) and the remainder by local funds. During the eight years of operation, 42% of the resources approved by the Bank have been disbursed (US\$212.5 million), and 14% were cancelled (US\$70.8 million). In addition to the approved projects, another 18 projects—for a total amount of US\$331.5 million—entered the pipeline at some point and have not yet been approved (see Table A.1 and Annex I). After 2008 only one project was added to the pipeline of PROCIDADES projects.²⁶ Put together, the combined amounts of projects approved and in inventory surpass the limit of the facility.

Of the 22 approved projects, 5 operations have been completed and 3 cancelled (Figure 2.2), and 2 have not yet disbursed. Toledo (BR-L1085) and Ponta Grossa (BR-L1099) were the smallest loans (both were for US\$7.5 million or less) and the first to be completed (in 2012 and 2013, respectively). Campo Grande (BR-L1104) closed in 2013, and Belford Roxo had its last part cancelled and closed in 2014. Early in 2015 Catanduva, also among the smallest loans (US\$8.44 million), was concluded. Nova Iguaçu (BR-L1058), Itajaí (BR-L1096), and Recife were cancelled

in 2011, 2013, and 2014, respectively. Of the projects under execution, only two have not yet been signed: São Luis (BR-L1117) and Londrina (BR-L1094). Among the projects with some disbursements, more than half have disbursed less than 50%. The remaining projects are at a mature stage, with an average of 81% disbursed on their approved amounts. Detailed information per project is shown in Figure 2.3.

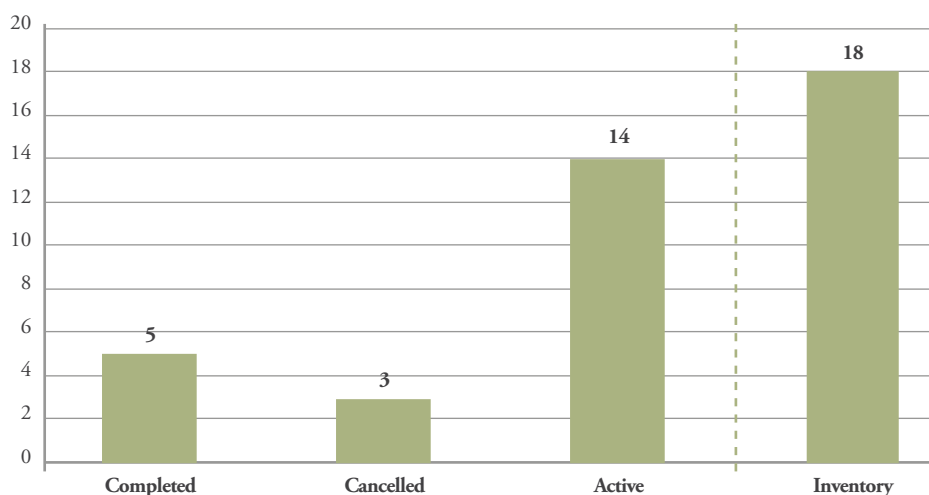


Figure 2.2

Project status

Note: The date of reference is March 31, 2015.

Source: IDB's internal information systems.

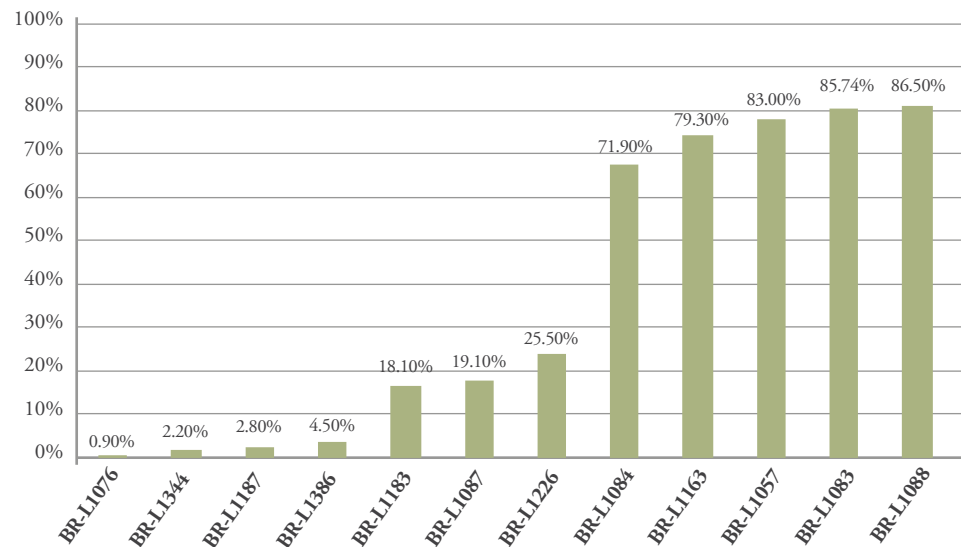


Figure 2.3

Percentage of disbursement

Note: The date of reference is March 31, 2015.

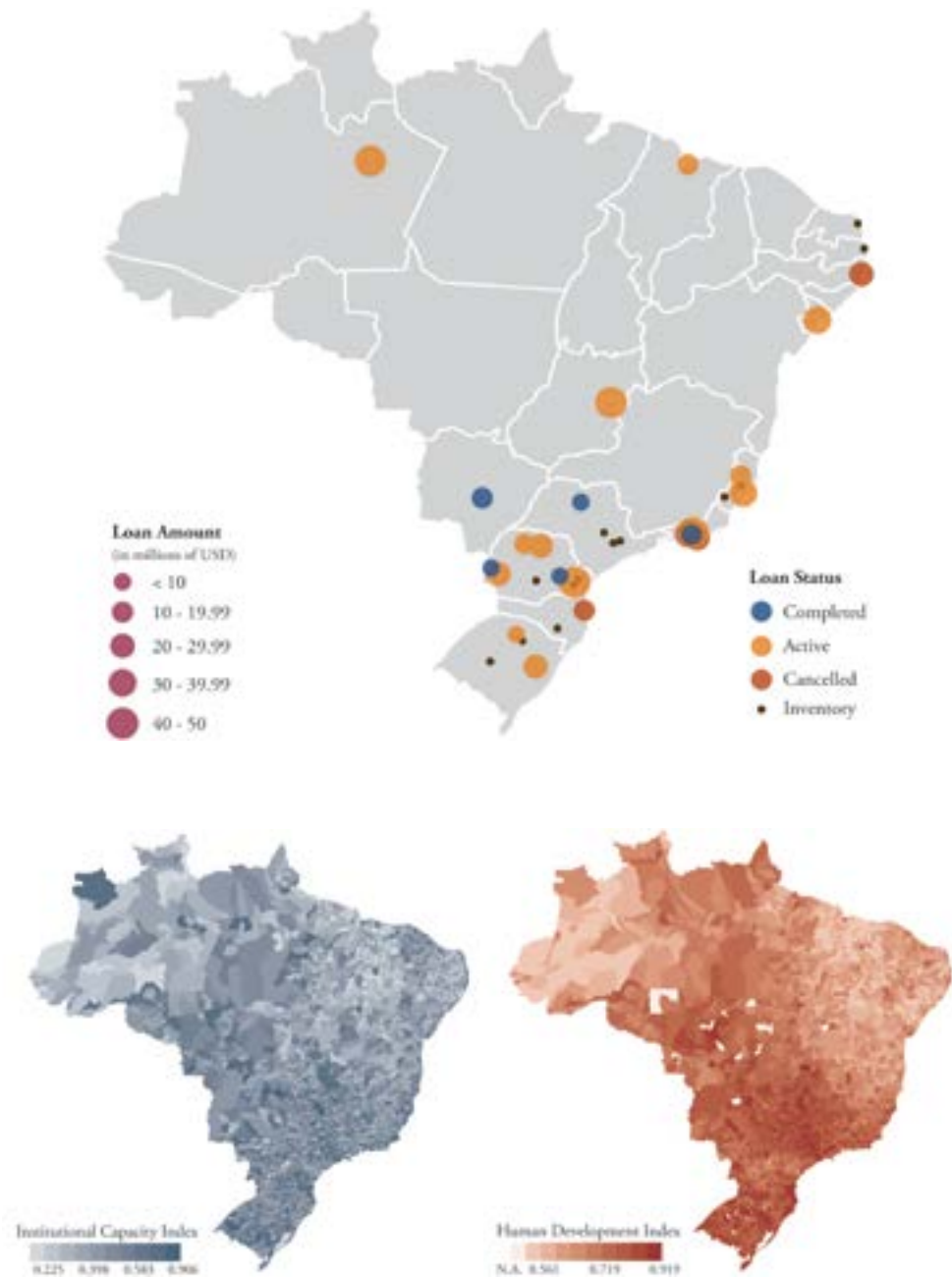
Source: IDB's internal information systems.

Although there has been no regional targeting for the PROCIDADES, most projects are in the south and southeast of the country (Figure 2.4), and some are in municipalities that exceed the population size target. In 2007 Brazil had 5,664 municipalities, of which only 239 were classified as medium-sized, following the definition above.²⁷ Five of the PROCIDADES projects are in municipalities with more than one million inhabitants.²⁸ Among the approved projects, 16 (73% of PROCIDADES projects) are in the south and southeast regions (which is 12% of the medium-sized municipalities

in these regions); 4 (18%) in the country's poorest regions, the north and northeast regions (which is 6% of the medium-sized municipalities); and 2 (9%) in the center-west region, in Brasilia and Campo Grande. Among the 16 in the south/southeast region, seven are in the state of Parana. The loans were developed as the Bank started receiving the *cartas-consulta*. It is not surprising that most of the first *cartas-consulta* were from municipalities in Parana, where the work of the Bank was known through the programs Parana Urbano.

Figure 2.4
Geographic distribution
of PROCIDADES
projects by amount
and status, and
distribution of municipal
institutional capacity and
development

Source: IDB's internal information systems.



In addition, there is some indication that PROCIDADES was skewed toward municipalities with stronger institutional capacity. The analysis of the institutional capacity²⁹ of the municipalities in PROCIDADES vis-à-vis the rest of the pool of medium-sized municipalities suggests that the ones whose loans were approved are among those with the highest capacity. Interviews with SEAIN employees indicated that in December 2007, the universe of municipalities (already well defined by then) had a “perverse” selection process: including the ones with fast response and the ones with stronger institutional capacity. There is a strong correlation between these two dimensions, as the ones with stronger institutional capacity tend to be the ones that are able to respond faster. Also, these municipalities tend to be concentrated in the richer areas of the country, with the highest average human development index. Stronger municipalities are not only more likely to propose a loan, but are also more likely to fulfill the requirements of the FRL and to succeed in pushing the loan through approval and disbursement. Given the complexities and multiple requirements of the ratification process, many municipalities dropped out before concluding the approval, eligibility, and disbursement of the loan. In this case again, municipalities with higher institutional capacity were more successful in following through on the process.



3 The Facility

A. RATIONALE

PROCIDADES was created to respond to country demand and increase IDB's relevance in the country. Brazil first proposed the possibility of working directly at the municipal level in infrastructure projects to the World Bank, which decided to exit after a few projects because of their high operational costs. Between 2007 and 2008, the World Bank approved six loans to smaller municipalities, with an average approval amount of US\$16 million. After 2009 very few municipal loans were approved, generally with much larger amounts than the PROCIDADES loans (Costa et al, 2014).³⁰ The IDB, by contrast, decided to meet the country's demand by designing a specific mechanism to target municipalities while reducing transaction costs.

Drawing on previous experience in urban development at the municipal level, the Bank correctly identified the main challenges to implementing the PROCIDADES facility: lack of institutional capacity and high transaction costs at the municipality level. In the first place, working at a subnational level implied dealing with entities with widely heterogeneous levels of institutional and management capacity. Most municipalities had no previous contact with the work of international donors and their procurement and financial practices. In addition, this niche of clients was more subject to disruptive changes in personnel, with loss of institutional memory—particularly in the event of a government change. Finally, municipalities' lack of planning discipline meant that they had very short-term horizons, mostly associated with the political cycle of the mayor. Since PROCIDADES was intended to target smaller clients with lower capacity and in less accessible areas—compared to the federal client—preparation and supervision costs were expected to be higher.

To meet these challenges, the Bank proposed strategies to reduce transaction costs and simplify preparation and supervision, while providing the necessary support to fragile municipalities. These mitigation measures were expected to work mostly because, despite the different needs of each client, it was expected that PROCIDADES would reach a high degree of standardization across projects. In particular, to reduce operational costs, the Bank took the following approach:

- **Decentralization followed by delegation of approval.** The facility called for the decentralization of project preparation to the country office, which was expected to significantly reduce the cost of missions and increase proximity to the client, allowing supervision without increasing costs. It is important to highlight that PROCIDADES was approved before the Realignment, and therefore it was quite innovative in its decentralization aspect. In addition, since all the staff at the country office reported to the country representative, decentralization also helped ensure stronger coordination among the different specialists (water and sanitation, transport, urban development), though the issue was not a big concern. It was estimated that these measures would reduce preparation costs by 43%.³¹ Along with this measure, the facility proposal provided that projects could be directly approved by the Bank's president³² (with the approval of the project report being delegated to the country office), under the argument that the Bank had enough experience with urban development projects in Brazil that management already had the capacity to take on this responsibility. This measure was expected to yield possible important reductions in the approval time of PROCIDADES projects.
- **Hiring technical support providers (prestadores de assistência técnica, or TSPs).** PROCIDADES proposed reducing costs by contracting local providers of technical assistance to the municipalities during preparation and execution of the project. This initiative followed the Bank's positive experience with Parana Urbano I and II,³³ in which the Bank worked with the state's urban development agency (*Paranacidade*). The idea was to tap the experience of such TSPs, especially in the preparation, evaluation, and execution of the operations. TSPs would bring to the table not only their experience in urban development but, crucially, their experience in project management and knowledge of how to work with a multilateral institution.
- **Outsourcing project supervision.** To help control costs, the facility envisioned contracting CEF as the TSP for the supervision and evaluation of the projects. Since CEF has presence all over the country, it could closely follow the projects in execution. In addition, CEF had a vast experience in financing urban projects, including a long history of working with the IDB (e.g., in *Habitar Brasil*, which predated PROCIDADES). In total, outsourcing supervision to CEF was expected to reduce supervision costs by 43%.³⁴
- **Software for project management.** Built into PROCIDADES was the development of a computerized management system that would integrate municipalities, TSPs, and the IDB, helping municipalities to manage the projects and the Bank to supervise them. The system was expected to feed directly into the Bank's system. The Bank would initially subsidize it, but once the facility reached a large enough number

(estimated to be around 30 projects), it was expected that Bank would no longer need to support it. All individual projects approved under PROCIDADES were expected to use the system, reducing reporting and monitoring costs for them and for the Bank, but its adoption was not obligatory.³⁵

- **Institutional strengthening.** Institutional strengthening was an important element of PROCIDADES, which aimed to change the focus from a specific area in need to a holistic view of urban development in the municipality. The underlying idea is that, through this component, PROCIDADES would become a mechanism of capacity transmission, preparing municipalities to better work with urban development interventions.³⁶ Generally, the institutional strengthening was not part of the *cartas-consulta* submitted to SEAIN, but the Bank imposed it on all projects it financed. In addition, the IDB secured cofinancing resources from the EU: €7.3 million to finance coordination activities, pre-investment for PROCIDADES, strengthening municipal associations, and training.³⁷

BOX 3.1 LOCAL CURRENCY

According to the PROCIDADES proposal, the Bank was expected to provide financing in Brazilian reais, when currency was available through different mechanisms (swaps or bonds) and when there were mechanisms for the market to absorb exchange rate risks. The interest rates of disbursements using local currency for PROCIDADES operations were tied to LIBOR and the local consumer price index, and at that time they were higher than for dollar-denominated disbursements.

Unlike dollar-denominated disbursements, financing in reais reflected market conditions at the time of each transaction. Thus each disbursement in reais had its own financial conditions and an amortization period that could be different from what was established in the original loan contract.

Local currency disbursements for PROCIDADES operations were conditioned on the following terms: (i) disbursements happen four times per year; (ii) the aggregate minimum amount (for the aggregate of participating municipalities) is US\$3 million; (iii) if this amount is not reached, the disbursements would wait until the next disbursement date; (iv) the repayment or return of funds is subject to the same minimum aggregate amount of US\$3 million.

Note: Based on RE-355, Annex I.

Another major aspect of the facility was the option to work in local currency, which was a requirement of the Brazilian government. Given the municipalities' limited experience with borrowing in foreign currency, the Brazilian government was concerned about a potential currency mismatch that could require the execution of the sovereign guarantee. Thus, under PROCIDADES the Bank was expected to use the innovative element of disbursing in Brazilian reais under the Local Currency Facility. Since the Bank could not place bonds and take exposure in local markets at that time, nor assume the exchange rate risk of lending and disbursing in reais, it would have had to

place swaps in the market. The loans would still be approved in US dollars, but with the approval of the Brazilian government, the municipalities could request that the disbursements be in Brazilian reais or that the remaining balance be converted to local currency according to the guidelines of the facility (Box 3.1).

B. ACHIEVEMENT OF OBJECTIVES

OVE's analysis of project achievements and costs took into consideration some of the indicators suggested in the PROCIDADES facility proposal. These included number of projects approved over the life of the facility, preparation and implementation costs, as well as time for preparation and implementation. Many other suggested indicators are not SMART indicators or are no longer used after the implementation of the DEM. In addition, OVE considered other indicators that were deemed relevant for this analysis.

PROCIDADES was successful in increasing the Bank's exposure at the municipal level. From the early 1990s until the approval of PROCIDADES, the Bank had approved only 13 municipal loans, all of them to large municipalities. Under PROCIDADES, 22 were approved in about half of this time. In addition, the Bank approved another 14 municipal projects that might have originated in part through the marketing efforts around PROCIDADES. Also, PROCIDADES opened the possibility of working directly with medium-sized municipalities.³⁸ However, the Bank did not achieve as much as initially expected, falling far below the target of 34 projects for US\$800 million by 2009—and, indeed, well below the limit of the facility.

However, PROCIDADES failed to reduce operational costs through the mitigation strategies included in the facility proposal. Few of the mitigation strategies worked as planned, and as a consequence PROCIDADES was not effective in reducing the Bank's transaction costs. The decentralization of project preparation was the most successful aspect of PROCIDADES, an innovative aspect which was later used as reference for the Realignment. Under PROCIDADES, projects were entirely designed and executed in the country office. However, with regard to other mitigation strategies adopted by PROCIDADES, the following was observed:

- **Delegation of approval.** After a discussion in the Board of Directors, it was decided that the first 10 PROCIDADES projects would be approved by short procedure instead of by the Bank's president, as proposed in BR-L1043. After that, the approval of projects up to US\$50 million would be delegated to the president. However, Management never used the delegation of approval. With the adoption of the new project cycle the gains in delegation of approval became less significant.
- **Outsourcing project supervision.** Although an umbrella agreement with CEF was signed in 2007, after the poor results of two supervision contracts for Campo Grande and Toledo, the IDB stopped contracting the services of CEF. Many causes have been identified for the failure in the partnership between Bank and CEF. First, as RE-398

pointed out, “The Agreement with CEF failed given the limited financial resources and small scale the Bank could bring to task.” Second, CEF’s approach to project supervision, based on the technical parameters of the infrastructure projects, differed drastically from the Bank’s focus on development objectives.³⁹ Finally, the expected reduction in costs failed to materialize, as the Bank specialist needed to be constantly involved.

- Hiring TSP.** Initially, the PROCIDADES projects were divided into lots for contracting the TSPs. In the end, only four lots were issued for bidding, covering the municipalities of Piracicaba, Santa Maria, Serra, (consorcio PBLM-AMPLA); Itajaí (with *Paranacidades*); João Pessoa, Recife, São Luis, Distrito Federal (TC/BR); and Barra Mansa, Passo Fundo e São João do Meriti (FEPESEL). More than half of them are municipalities whose project was never approved. Shortly afterward the TSP model was discontinued. The contracts with all TSPs except *Paranacidades* were either not renewed or cancelled. Two problems with this model were identified: (i) the TSPs, again with the exception of *Paranacidades*, proved to lack the necessary expertise, and their performance was poor according to the Bank’s standards; and (ii) contracting firms for project preparation and supervision turned out to be too expensive, as consulting firms are proportionally more heavily taxed than independent consultants in the Brazilian tax system. As a result, the IDB reverted to the original model of hiring individual consultants, who mostly had previous experience of working with the Bank.
- Software for project management.** The Bank took too long working on the proposal for the software. At the end, a company – SOFTPLAN – was hired in September of 2008, when a large number of projects had already been approved. As a consequence, a few problems emerged. First, the software was not ready when some of the municipalities started to use it, and the program kept having to be adjusted along the way, creating confusion, especially for those municipalities with low capacity. Second, the contract with SOFTPLAN assumed a level of demand that never materialized, as the PROCIDADES targets were highly overestimated. This implied higher costs for the Bank, which took the responsibility of subsidizing the software until 30 municipalities adopted it. In addition, although the final version of the software was actually good for project management,⁴⁰ it became obsolete with respect to the Bank’s systems, which changed over time. Therefore, it did not represent much gain for the municipalities in preparing reports for the Bank, and new PROCIDADES municipalities were unlikely to adopt it.
- Institutional strengthening.** Each project approved under PROCIDADES did include a component for institutional strengthening, and this aspect is discussed in the following session. Regarding the technical cooperation (TC) signed with the EU, the main finding was that it did not benefit PROCIDADES projects. Because of changes in the government, the TC was moved to another division of *Ministério do Planejamento*. This led to a dispute on how the money should be used, resulting in the cancellation of the TC after only 32% of the total amounts were disbursed. Moreover, changes in the priorities of the Brazilian government meant that the resources were spent on training and not so much on pre-investment. The evaluation of the TC points to very positive results, but none of them are related to PROCIDADES.

Another innovative aspect of PROCIDADES that did not materialize was the use of local currency (explained in Box 3.1). The Bank worked hard to respond to the request of the Brazilian government, but in the end none of the municipalities opted for local currency. For the municipalities, to convert the loan into reais they would have to work around the complex mechanism designed by the Bank; but by keeping it in dollars they had to assume the exchange rate risk—something they seemed reasonably comfortable with. Given the exchange rate fluctuation during this period, some municipalities experienced gains in taking a loan in dollars, while others reported some loss. However, the municipalities stressed the very large interest rate differential of IDB financing vis-à-vis other local sources of financing, with IDB being as much as 5 times cheaper.

As some of the innovations brought by PROCIDADES failed to materialize, so did the expected reduction in preparation times. Indeed, it was stated in the facility proposal that “the proposed arrangement for processing and approval will lead to simplification of the review process and will lessen the time for processing operations and the costs that would be incurred if it passed through the various committees involved in reviewing them, measured in person-hours, and the costs of logistical services rendered by the Office of the Secretary.” Table 3.1 compares the preparation time,⁴¹ time between approval and eligibility, and time between eligibility and first disbursement for PROCIDADES projects and other groups of projects. The first thing to note is that since 2007 there has been a small reduction in preparation time in Brazil, which is likely related to the launch of the new project cycle in 2007. PROCIDADES loans are on average the ones that took the longest to be prepared—almost 9 months longer than the average of other loans to Brazilian municipalities during the same period—and to reach eligibility. The comparisons with the average of the country or urban development projects in the region show an even larger gap.⁴²

TABLE 3.1 AVERAGE TIME FOR PREPARATION, ELIGIBILITY AND FIRST DISBURSEMENT (IN MONTHS)

Type of loan	Preparation time	Time between approval and eligibility	Time from eligibility to first disbursement
PROCIDADES Loans	35.2	16.6	3.4
Non-PROCIDADES loans to Brazilian municipalities between 2007 and 2014	26.5	14.5	2.8
Loans to Brazil approved between 2000 and 2006	27.5	15.0	4.0
Loans to Brazil approved between 2007 and 2014	24.9	13.6	3.0
Urban Development loans approved between 2000 and 2006	25.4	12.4	1.8
Urban Development loans approved between 2007 and 2014	26.9	12.5	2.4

Source: IDB's internal information systems.

The time between the COFIEX proposal approval and IDB's own approval was on average 35.2 months;⁴³ political change seems to largely explain this delay. Figure 3.1 shows a large increase in preparation time over the years, which is not surprising, given that all municipalities submitted their *cartas-consulta* around the same time.⁴⁴ The reasons for such heterogeneous results seem to be related to the municipalities' political cycles.⁴⁵ The most recent mayoral elections in Brazil took place in 2004, 2008, and 2012. This means that most municipalities submitted their loan requests to COFIEX shortly after a new mayor took office in 2005. Toledo, which had the shortest preparation time and time until eligibility, reelected its mayor, so there was a perfect continuity in the process.⁴⁶ Similarly, Belford Roxo, which has the lowest level of institutional capacity, had a very fluid dialogue with the Bank and SEAIN in the beginning, resulting in a short approval period. Figure 3.2 shows that on average, projects in municipalities with changes in the political party in power in 2008 took longer, as in many cases some aspects of the project had to be renegotiated.⁴⁷

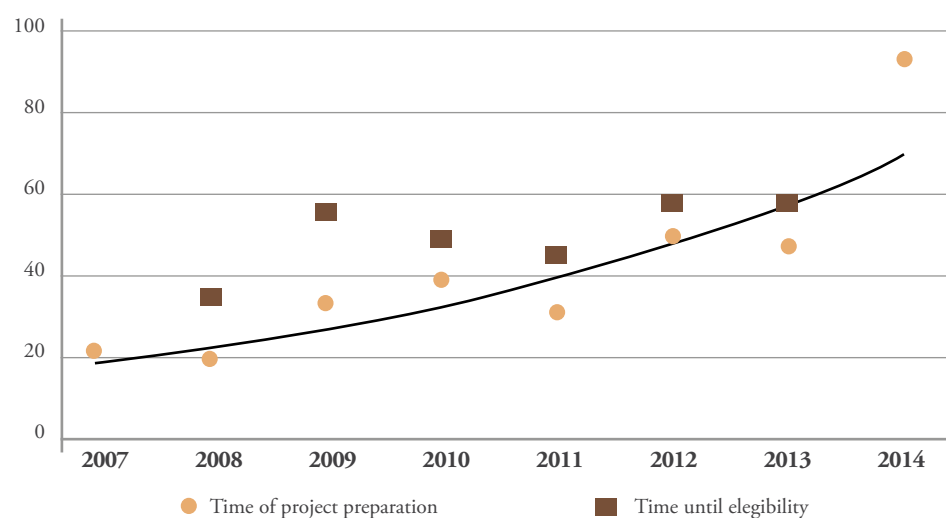


Figure 3.1
Average preparation time by year of approval

Source: IDB's internal information systems.

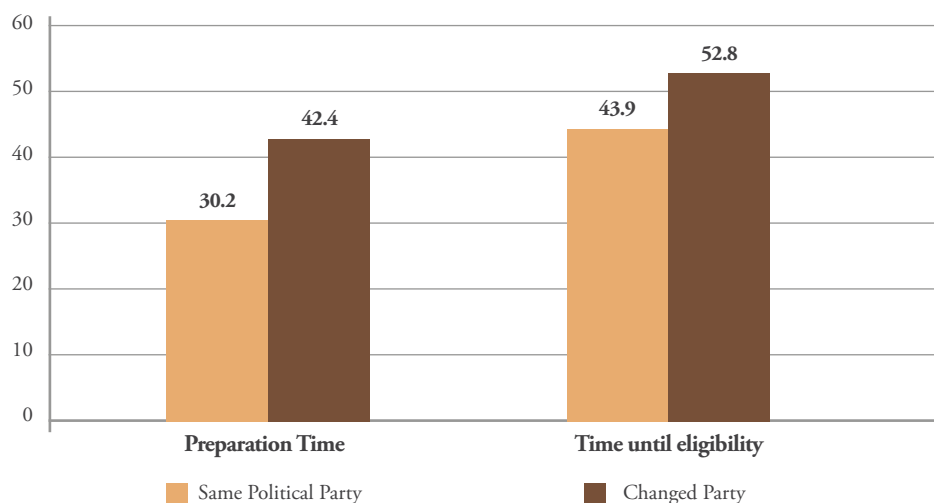
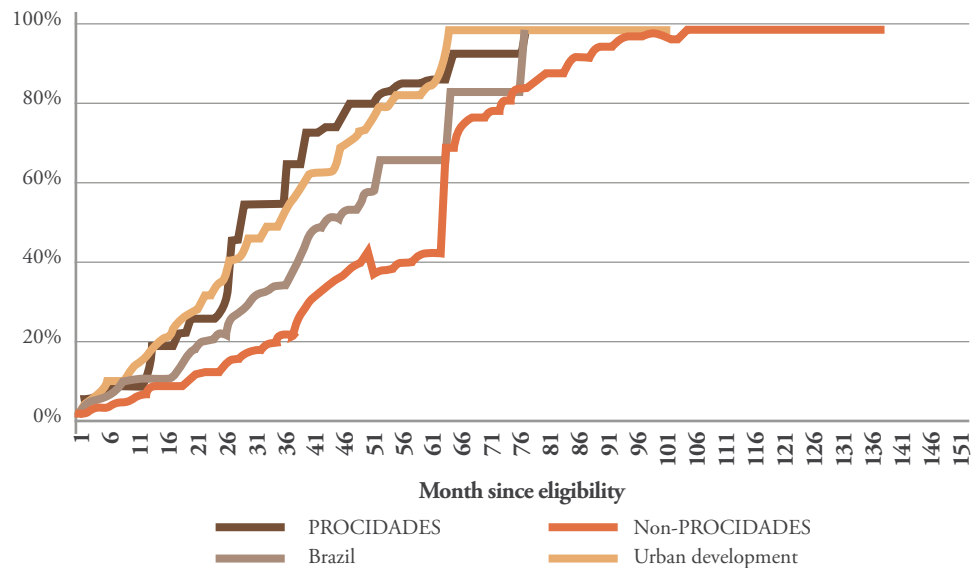


Figure 3.2
Average time by change in political party between 2004 and 2008

Source: IDB's internal information systems and *Tribunal Superior Eleitoral*.

The speed of disbursement of PROCIDADES loans is similar to the average of other urban development loans in the region (Figure 3.3). PROCIDADES loans are slightly slower in disbursing. However, the difference is small and might be attributed to the fact that PROCIDADES loans are for municipalities, which is not the norm for the urban development projects in the other countries of the region. This is to be expected, as the other investment loans are for much stronger counterparts, the federal and state governments. In fact, when comparing PROCIDADES with all loans to municipalities, PROCIDADES loans seem to have performed better. However, this analysis has to be taken with caution, since the period in consideration is somehow different. The other municipal loans include loans approved since 2000, to allow for a reasonable number of loans for the comparison, which might explain this result.⁴⁸ Some of the main challenges to the execution of PROCIDADES loans are the usual problems of urban development projects, especially when working in poor areas (see Box 3.2). Comparing PROCIDADES loans with the other loans in Brazil for the same period (2007-2014), excluding all PBLs and private sector operations, shows much better performance by the PROCIDADES loans. This is likely to be due to the fact that PROCIDADES loans are concentrated in the south and southeast regions of the country.

Figure 3.3
Disbursement over time
of PROCIDADES versus
other loans



The Bank's Realignment reduced the comparative advantage of the PROCIDADES program vis-à-vis other IDB loans.⁴⁹ Although some of the ideas built into PROCIDADES might have served as an inspiration for the Realignment, the Realignment itself reduced some of the comparative advantages of PROCIDADES by extending many of the innovations across the board. One such example is PROCIDADES' project cycle, whose time reduction (including short procedure) is now relatively small when comparing with non-PROCIDADES projects. The Realignment also severely affected one of the main advantages of PROCIDADES: its multisector approach. After the Realignment, coordination between divisions became (paradoxically) more difficult.⁵⁰ In the new context, the facility and its costs

were assigned to the FMM division.⁵¹ Specialists in transport and water—who had heretofore reported to the country representative—now had to switch divisions if they wanted to continue working on PROCIDADES. Cooperation became more difficult.

BOX 3.2 EXAMPLES OF CHALLENGES IN THE EXECUTION OF PROCIDADES PROJECTS

The reasons for delayed execution differed among projects. Some delays and execution challenges seemed to have been the usual ones of working in urban development, particularly in poor areas, while others were characteristic of dealing with smaller municipalities. The following were among the main sources of challenges in PROCIDADES.

- **Vandalism and limited ownership when the infrastructure is located in poor communities.** In the two parks in Catanduva and the Orla Ferroviária in Campo Grande the sustainability of investments is being compromised. In Vitoria, the problem was more acute and affected the chances of actually completing the infrastructure, since in many cases material was stolen.
- **Resettlements.** Though PROCIDADES loans seemed to have handled resettlements better than other Bank projects, projects that included resettlement still experienced difficulty in dealing with this issue. Challenges were related to expropriating the land, particularly where urban land is scarce. In Curitiba, the fact that the government managed to expropriate a big area (enough for 75 houses) from a single owner simplified execution. But this is not the case in the other projects; Manaus, for instance, is having problems precisely because the government cannot expropriate a big property that is in the way of the project. Getting the population involved seems to be a successful strategy to sell the project and promote community ownership.
- **Political economy issues.** Sometimes infrastructure investments have localized “losers,” even though the overall community wins. Such local losers—if not properly handled—can generate noise and delays, as in the case of the infrastructure corridor of Av. Julio Castilho in Campo Grande. The avenue was narrow and had a lot of commerce around it, and the new infrastructure meant eliminating parking in the street. The local businessmen’s association managed to get to the mayor involved, creating noise and delays. Particularly in small communities, where mayors are more exposed to lobbies, it is important to have a way of insulating the political power from the optimal technical decision.
- **Changes in government and political risk.** Political risk did not materialize in most projects visited, in spite of changes in mayors. The smaller the jurisdiction, the more likely the political power may want to interfere in the execution of a project. In some cases IDB had an important role in contacting the new administration and explaining the project (“selling” the project) to the new government, and ensuring that there would be no changes in the technical team of the executing agency. However, the case of Belford Roxo was very different. The project progressed well until after the 2012 election, when the coordinator of the executing agency changed. This, in addition to several problems with the firms responsible for the construction, caused the dialogue with the Bank and SEAIN to deteriorate.

Several restrictions imposed by the Brazilian government also affected the viability of PROCIDADES. Because of the upper bound on loan size imposed by the government, the Bank ended up taking on a large number of very small projects, which led to high operational cost per dollar approved, as the previous section showed. The insistence on a 50-50 split in costs also made these loans less appealing to municipalities that had to produce half of the resources, increasing the incentive for small loans.

From the municipalities' point of view, PROCIDADES had some drawbacks: (i) the lengthy process, which meant more than two years from conception (*carta-consulta*) to eligibility;⁵² (ii) the limited resources to finance pre-investment; (iii) the increasing availability of alternative and more attractive sources of finance; and (iv) the cost-sharing requirement. The long (and costly) process of approval and eligibility is inconsistent with the political economy of the municipalities, where political cycles tend to be shorter: by the time preparation is complete and the project reaches eligibility, the mayor—and consequently, the civic priorities—may have changed. Low planning capacity at the municipal level was aggravated by limited resources for pre-investment. The facility also had to compete with alternative sources of financing, mostly from the Corporación Andina de Fomento (CAF)⁵³ and the federal government.

The actual impact of alternative sources of finance on PROCIDADES is unclear. In 2007 CAF approved a credit line for municipalities for a total amount of US\$200 million—the Program for Supporting Municipal Governments. The success of this line, which committed all its resources by 2009, led to the approval of a second one.⁵⁴ The only overlap with PROCIDADES was in the municipality of Manaus, which approved a US\$75 million loan from CAF in 2008. CAF loans are more expensive, but they are long-term loans with grace periods of 5 years, and there is evidence that municipal officials often care more about disbursement speed than financial considerations. In addition, during this period the government launched a massive Program for Growth Acceleration (*Programa de Aceleração do Crescimento*, or PAC) that provided free or heavily subsidized resources for municipal infrastructure investments. The PAC (2007-2010)⁵⁵ for R\$503 billion was launched in 2007, followed by PAC Historic Cities⁵⁶ (2009) for R\$133.1 million and PAC2 (2010-2014), with an even higher focus on municipal investment and a committed amount of R\$1.59 trillion.⁵⁷ The overall effect of PAC's massive investments at the municipal level is hard to determine. In some cases this “free” money acted to discourage borrowing under PROCIDADES (as in the case of Recife and Nova Iguaçu, whose loans was canceled); in others it was a good complement that financed the government counterpart required (as in Vitória) alleviating the high cost-sharing requirements. This generated other difficulties, mostly related to the external control system. Specifically, if a municipality decided to use PAC as counterpart of an IDB loan, it was required to apply IDB procurement rather than Brazilian national procurement (Lei 866). Lack of familiarity with IDB's rules generated some objections by some state audit courts (*Tribunal de Contas*).

Eventually the increased transaction costs for the government and the Bank led to a loss of interest in the facility. The approval of PROCIDADES in 2007 gave rise to both a flood of cartas-consulta and an increase in the number of projects to be handled by SEAIN. Since the approval process within the Brazilian government is cumbersome, the amount of work for SEAIN increased significantly after 2006. Indeed, the approval process involved many federal institutions: SEAIN, Treasury, Secretary of Finance, Federal Senate, and Banco Central do Brasil (Central Bank). Also, given the length of the process, it requires some repetitions, such as revising municipal accounts at least 3 times during the process. As a consequence, interest in the facility for small loans started to fade.

C. COST

Regarding the costs of approved PROCIDADES projects, the analysis of time already suggests that they were higher than expected. The total cost of approved projects, including the costs of preparation and of supervision, amounted to US\$8.7 million by the end of 2014. The preparation cost of the projects averaged slightly above US\$200,000, which is slightly below the overall average of FMM projects for the same period, even though the average of FMM includes projects that do not involve infrastructure and are usually less costly to prepare.⁵⁸ In addition, this amount is considerably lower than the target of US\$225,000. Among the most expensive projects were the ones approved in the last three years, which agrees with the fact that they were longer in preparation. However, the average cost per million approved is US\$11,326,⁵⁹ which is substantially above the average preparation cost of Bank projects, particularly in Brazil.⁶⁰ Moreover, PROCIDADES projects averaged almost double the preparation cost per million than other municipal loans in Brazil between 2007 and 2014. This result is mostly explained by the very low approved amounts of PROCIDADES projects, which were in turn favored by the government's requirement of a US\$50 million ceiling for each individual PROCIDADES operation—with no minimum.

The main driver of preparation costs in these projects was the fact that almost all the PROCIDADES municipalities were new clients of the IDB. Indeed, working with a new client is one of the few elements that seems to explain the fact that the Bank spends about twice as much (per million approved) in first operations than in later stages (Figure 3.4). So the relatively high cost of preparing PROCIDADES loans might also be attributed to the fact that the Bank was working with a market that had no previous experience in dealing with multilateral banks. Interestingly, the amount invested by the Bank in project preparation seems to have been relatively independent of the institutional capacity of the executing agency (Figure 3.5)—which might explain some of the higher execution costs down the road.

The average PROCIDADES supervision cost per amount disbursed is also high and correlated with the approved amount. The average PROCIDADES loan's supervision cost per thousand disbursed is US\$151, while the average for Brazil investment loans

in the same period (excluding PROCIDADES) is only US\$42. There is also evidence of a negative relationship between cost per disbursement and the amount approved (Figure 3.6)⁶¹—that is, smaller loans are more expensive to supervise in relative terms, since the disbursements are likely to be smaller.

Figure 3.4
Preparation cost and previous experience with the IDB

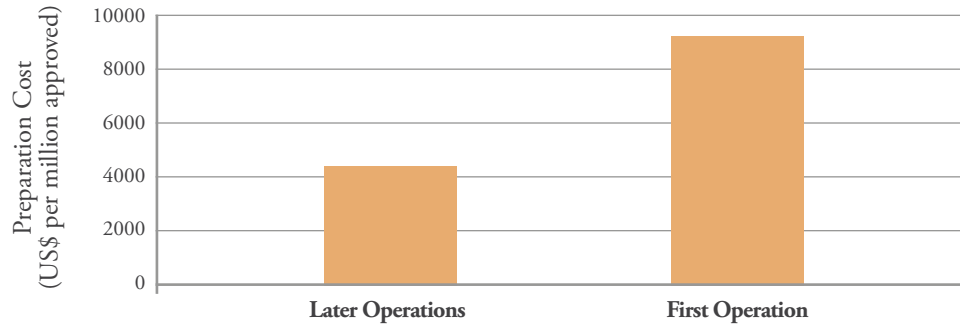


Figure 3.5
Preparation cost and institutional capacity

Note: To allow for a larger number of observations, this graph includes all loans to municipalities since 2000.

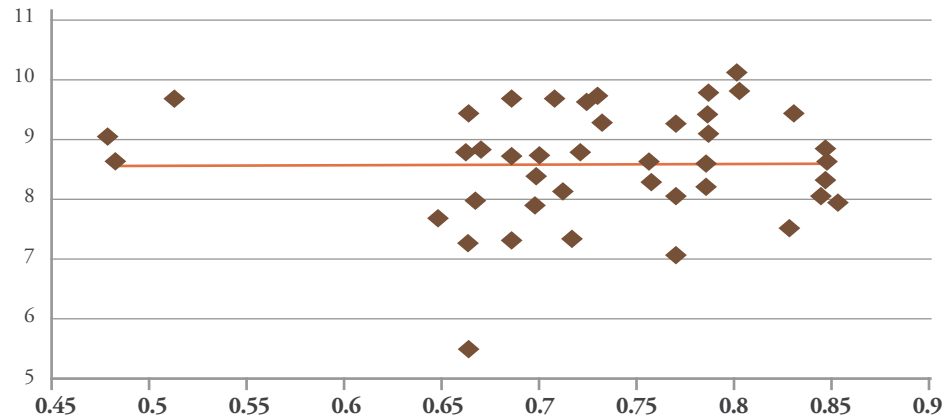
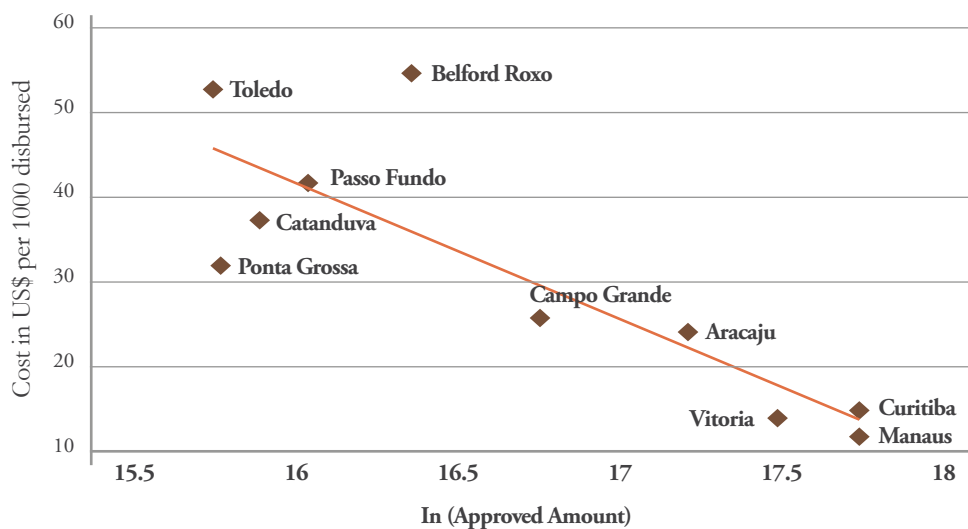


Figure 3.6
Cost per US\$ thousand disbursed versus loan approved amount



The high supervision cost per disbursement seems to be driven mostly by the recently approved loans. Projects for municipalities in Brazil tend to take longer to reach eligibility. All charges to the project between approval and eligibility, while there are no disbursements; make a difference in the beginning of the execution of a project. In addition, the projects in Cascavel, Novo Hamburgo, and Brasilia, recently approved and each less than 3% disbursed, already have overall supervision costs above the total spent in Toledo and Ponta Grossa, which are completed.

In addition, there is evidence that institutional capacity is a key factor to explain supervision costs. Figure 3.7 shows a (statistically) significant negative relationship between execution costs and institutional capacity.⁶² Working with the lower-capacity municipalities (Belford Roxo, Cascavel⁶³, and Catanduva) implies average execution costs of about US\$41,000 per million disbursed. On the other end, working with the most capable municipalities, like Curitiba, is associated with average execution costs of about US\$7,000 a year. First-time operations also have significantly higher execution costs (by about 50%), but the statistical significance of this figure is only marginal.

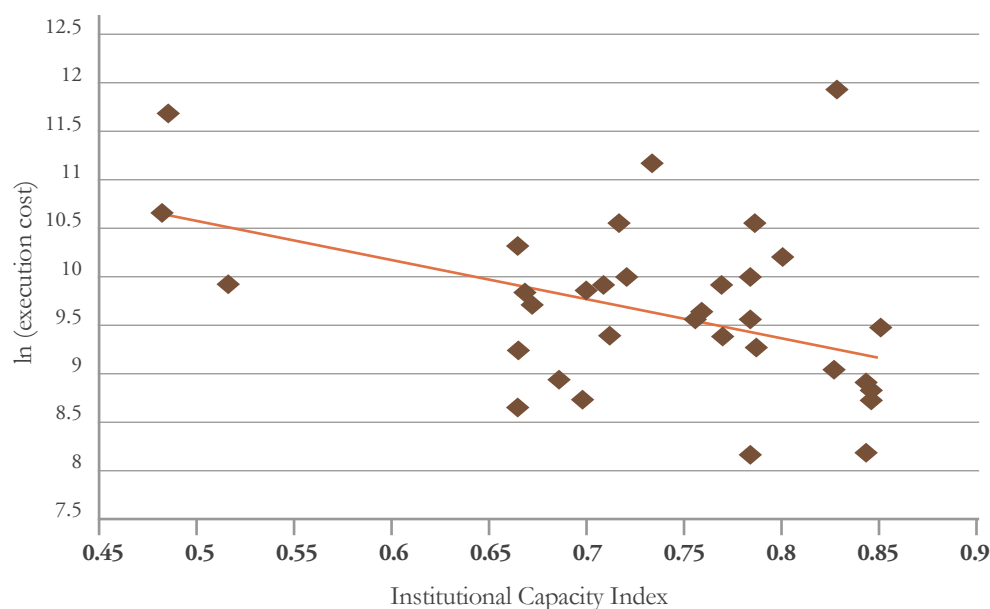


Figure 3.7
Institutional capacity and execution costs

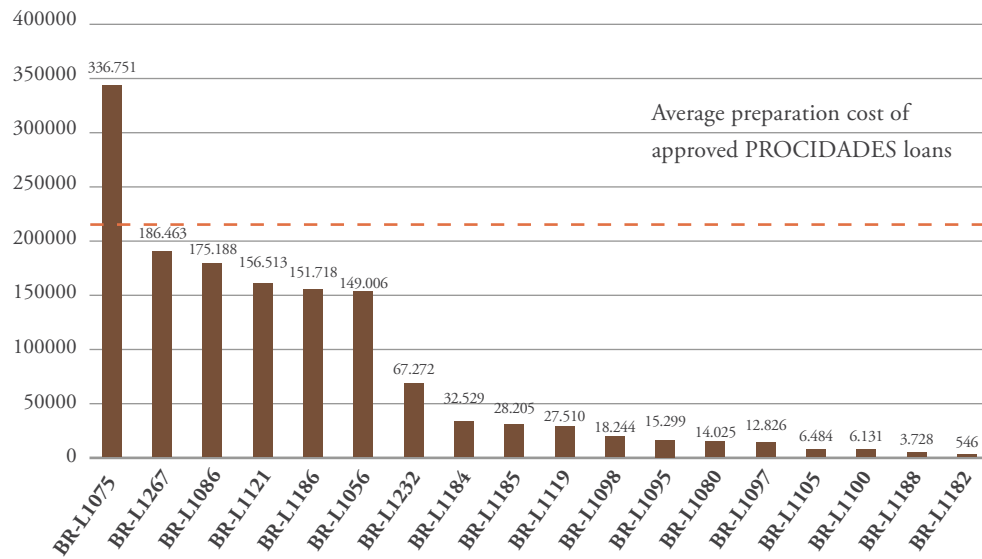
The fact that the PROCIDADES generated a large number of projects that were never approved added to its overall cost. The overall cost of projects in inventory reached US\$1.39 million (Figure 3.8). Many of the projects in inventory had a low cost, suggesting that they stopped being prepared at a very preliminary stage, which is not necessarily correlated with the number of years in which the projects were in the pipeline. However, a few projects were in preparation for as long as 7-9 years, some of them with preparation costs above that of approved projects. One of them, for the Municipality of Duque de Caxias, had a cost of more than US\$335,000.⁶⁴ According to the self-evaluation, among the main reasons these projects did not

move ahead was their noncompliance with the conditions of the FRL and the possibility of financing them with other resources.⁶⁵ In addition, there is evidence that the Bank took the right approach in not moving forward with some of the projects in inventory, as the municipalities in this group have significantly lower institutional capacity than those that had their projects approved.⁶⁶ Their approval could have implied higher execution costs for the Bank, as will be discussed in the next section.

Figure 3.8
Cost of preparation of projects in inventory

Source: IDB's internal information systems.

Note: The date of reference is March 31, 2015.



Overall, PROCIDADES has so far cost the Bank more than US\$12 million, excluding the cost of TCs.⁶⁷ To compute the cost of PROCIDADES it was necessary to take into account all charges to the generic umbrella facility BR-L1043, the cost of preparing and executing each project approved, the cost of the projects that are in inventory, and the cost of the software for project management developed by the company SOFTPLAN. The facility alone had cost a total of US\$2.26 million by 2014, with a peak of expenditures in 2006, when it was approved and most of the facility-level work was done. The contract with SOFTPLAN was signed in the second half of 2008 for an amount of about US\$0.8 million.

However, the cost of PROCIDADES should be considered vis-à-vis the benefits of the facility. The gains from PROCIDADES do not come only from the projects approved in the facility, but from the lessons learned,⁶⁸ in particular the ones that were extrapolated to municipalities beyond Brazil (as suggested by the Sustainable Cities Initiative Proposal)⁶⁹ and the increased proximity between IDB and the Brazilian municipalities.⁷⁰ According to information published by SEAIN at the beginning of 2014, more than 50% of the loans for municipalities are from the IDB, and most of them were approved under PROCIDADES.⁷¹ In addition, the relationship with municipalities is getting stronger over time, as municipalities—including some with

closed or closing PROCIDADES projects, such as Campo Grande, Manaus, and Aracaju—have approved new projects with the IDB. This suggests that, beyond the gains of the projects themselves, the Bank succeeded in generating capacity in some municipalities to continue working with multilateral banks. However, these benefits are not easily measurable in monetary terms.

Although the failure to implement some of the mitigation strategies resulted in higher operational costs, they might have also resulted in some gains to the Bank and some municipalities. As a result of the failed contract with CEF, the Bank specialists had to supervise project execution. This not only increased supervision costs for the Bank, but also overwhelmed the few Bank staff responsible for PROCIDADES. However, as will be discussed in the next section, the presence of the Bank in some municipalities helped the executing agencies to promote better standards in the project, including an increased emphasis on social and environmental safeguards. Additionally, executing agencies pointed to the constant presence of Bank specialists and consultants⁷² as a good source of learning and exchange of experiences. Finally, direct supervision increased the Bank's visibility in these municipalities, which might partly explain the new batch of municipal loans. Another example of unexpected positive impact was related to technical assistance outsourcing through TSPs. The use of TSPs was an attempt by the Bank to achieve faster execution at the cost of lowering the Bank's impact on institutional capacity building for project preparation and execution. Once again, without the help of the TSPs, the Bank and municipalities had to incur the cost of preparing and executing each project. Some municipalities took this as an opportunity to learn and form stronger executing agencies, creating the foundation for new loans with the IDB and other multilaterals.⁷³



4 The Projects

To ensure the relevance of the projects, the PROCIDADES facility required that they be an integral part of the municipality’s development, strategic, or investment plan, and be a priority, usually defined in the municipality’s Urban Master Plan. In practice, the Urban Master Plans of different municipalities had different levels of maturity, and PROCIDADES loans could not always be as standardized as anticipated.⁷⁴ Indeed, to be relevant to the needs of each particular municipality, PROCIDADES loans were unique, independent loans with limited scope for cross-fertilization. Unfortunately, the fact that all these projects were approved under the same umbrella did not translate into increasing coordination and cooperation across municipalities, in either technical or fiduciary aspects. In a few cases there was an exchange of information between municipalities about how to prepare terms of reference, and a few executing agencies reported visiting “model” projects, but cross-fertilization was very limited.

Despite the problems at the facility level, the loans have made progress toward their general objective of improving the quality of life of the population of the benefited municipalities—though their actual impact cannot be quantified. As mentioned above, five projects have been completed, and another five have had a significant level of disbursement. OVE’s field visits and desk review suggest that the quality of life of the population in these municipalities has improved. Many of the municipalities have improved entire neighborhoods, with increased access to water, sanitation, and electricity in areas in need; an increased supply of space for leisure, with parks and green areas; and improved mobility (see Box 4.1). However, none of the projects had good indicators to access the exact overall gains in quality of life,



© OVE, 2015 which is a complex outcome to measure. Among the completed projects it is possible to observe some gains, measured by the perception of the population (Toledo), use of the parks constructed (Catanduva and Campo Grande), reduction in travel time and cost (Campo Grande, Toledo), and supply of public services index (Ponta Grossa).

In terms of outputs it is possible to observe that—among the projects with high levels of disbursements—less has been done in the component of institutional capacity than in the others. Passo Fundo seems to be the only project in which the institutional capacity activities were carried out before the other activities. Curitiba has also made substantial progress on this component, although delays have occurred, mostly in the neighborhood improvement component, which faced most challenges because of resettlement. In projects with a mobility component, that is the first component to be concluded—perhaps because it is relatively easier to implement.

With regard to the institutional capacity component, which was obligatory in all PROCIDADES loans and aimed at promoting institutional strengthening activities related to the investment components, the achievements seem mixed and related to the municipalities' capacity (Box 4.2). This component was very heterogeneous across municipalities. About 75% of the projects included studies, collection of data, and development of monitoring systems. Many of the studies diagnosed how the municipalities could better operate, but the actual changes required were left up to the municipalities. A little under three-quarters of the projects included equipment

acquisition, and more than half included different types of training. In at least some of the visited municipalities, the excessive focus on hardware was not positive, since equipment became obsolete in the long period between preparation and execution.

BOX 4.1 MEASURING ACHIEVEMENTS OF PROCIDADES PROJECTS

The difficulty in assessing the impact of PROCIDADES projects is related to the complex nature of such projects. Integrated urban development affects many dimensions of the people's life. Therefore, simply measuring increased access to certain services, or reduced travel time, or even the improvements in downtown areas, would not be enough to assess the impact of these projects. In addition, while these projects should have been attempting to measure the impact of working in an integrated way, their results matrices do not contain indicators to assess that aspect—nor, indeed, is it easy to measure.

All approved PROCIDADES loans had as an objective to improve the quality of life of the population, except three: São Luis, which aimed to support the revitalization of the Historic Center; Colatina, which sought to improve the population's environment and urban conditions; and Cascavel, whose goal was the improvement of the urban space. Among the projects that explicitly aimed to improve the quality of life, the proposed indicators varied substantially. The most common indicators are (i) a quality-of-life index, but the scope of such indices is not appropriate since they cover the city as a whole, whereas the interventions were for subgroups; (ii) satisfaction surveys, which were not well defined and were unlikely to help assess the real impact of the interventions; (iii) housing value, which is likely to be affected by many variables beyond the intervention; and (iv) transportation time and cost, which are standard indicators for mobility projects.

SPD is currently working with the PROCIDADES teams in an attempt to measure the impact of PROCIDADES interventions through housing values. Instead of just considering the areas of intervention, this approach compares areas of the cities affected by PROCIDADES with other areas of the same municipality, using a dif-in-dif methodology. This is not a straightforward approach, since municipalities' changes over time are due to a number of factors, not just PROCIDADES. In addition, PROCIDADES interventions are generally limited when compared to all the needs of each area. Moreover, some issues can be raised about the methodology, in particular the number of observations.

The lack of quantitative indicators limits the ability to assess the real impact of PROCIDADES on quality of life. However, the delivery of the outputs can indicate that the populations of these municipalities enjoy some benefits. For instance, in Belford Roxo the sanitation project aimed at connecting the houses to the treatment plant on the other side of the river that passes close to the municipality; the pipes have been installed, but the system to connect them to the treatment plant was never finished. As a result, the sewerage is being disposed of directly in the river. The construction led to improvements from both the visual and the smell standpoints, thus improving the quality of life of the beneficiary population, but it did not reduce the contamination of the river.

BOX 4.2 EXAMPLES OF INSTITUTIONAL CAPACITY IN PROCIDADES

Among the municipalities visited, the one with the lowest institutional capacity—Belford Roxo—was the one that had done the least in this area. The institutional capacity building was converted to training offered to the community, and all other capacity-building activities envisioned in the original loan proposal were canceled.

Campo Grande also had limited gains from this component—a fact that was partly due to the government’s lack of knowledge of what this component meant and what could be done for institutional strengthening. The component turned out to be heavily focused on the purchase of equipment that became obsolete by the time the project started to disburse. Consequently, this component was not very useful, and it was difficult for the municipality to execute. In a new project, Campo Grande has shifted toward having IDB help create a long-term planning structure in the government. In Curitiba, although the component itself was different, the executing agency had a view similar to the one in Campo Grande.

However, other municipalities reported good experiences with this component. In Aracaju PROCIDADES supported the establishment of the Municipal Environmental Secretary. The executing agencies in Vitoria and Niteroi reported gains in institutional capacity, which went beyond the institutional capacity component. They claimed that some strengthening resulted from the program’s integrated approach, which led them to reorganize their way of working and increase the dialogue across different government units.

One concern is that the institutional capacity brought by PROCIDADES might not be permanent. In most of the municipalities visited, the executing agencies were composed mostly of permanent staff of the municipal government. Thus the results of the costly process of learning how to work with the Bank and managing complex projects are likely to stay in the municipality. However, in a few cases—Niteroi, Catanduva, and even Brasilia in the beginning—the entire executing agency was made up of consultants, so all the training provided through the program could be lost after the conclusion of the project. Similarly, the vast range of training provided through the institutional strengthening component could be lost. Some municipalities pointed out the risk of losing the trained people, since some of these municipalities government work with a high share of consultants vis-a-vis staff.

The Bank’s greatest value-added seems to have been the integrated approach and its constant presence during the execution of the project. As mentioned above, shortly after the approval of the PROCIDADES facility the Brazilian government launched PAC, which provided municipalities extra resources to invest on infrastructure. However, the executing agencies interviewed pointed out that the PAC projects lacked the integrated view that PROCIDADES had (see Box 4.3). Only one municipality—Belford Roxo—had problems in managing the project because of its high level of complexity; the other municipalities, all with higher institutional capacity than Belford Roxo, benefited from the integrated approach and even strengthened their

capacity to manage projects. Additionally, all clients saw IDB missions as a very positive influence. On average, they said, they received about one mission every 6-12 months. Aside from being a good way of exchanging ideas with the specialists and the consultants of the Bank, these missions were useful for giving bargaining power to the executing agency—particularly against other conflicting interests in the local government. For instance, in Curitiba the presence of the specialists seems have been key to ensuring good environmental and social safeguards and guaranteeing correct enforcement and supervision.⁷⁵

BOX 4.3 HOW INTEGRATED ARE THE URBAN DEVELOPMENT PROJECTS IN PROCIDADES?

An integrated plan for sustainable urban development comprises a system of interlinked actions to bring about a lasting improvement in the economic, physical, social, and environmental conditions of a city or an area in the city. According to the PROCIDADES facility proposal, “experience has shown that interventions at the municipal level are more effective when integrated, which allows social actions to be combined with physical and other interventions that provide more comprehensive solutions to local problems.” Therefore, PROCIDADES was designed to finance integrated municipal development programs with activities targeting specific areas of each city.

Looking at the components of each loan approved (see Annex II), it is clear that the concept of integrated urban development as defined above was not fully applied in all municipalities. Many components are completely independent of each other. For instance, in Vitoria, the components of urban drainage and the component to support the project “Terra Mais Igual” are clearly independent, as the first targets a middle-class neighborhood that is quite far from the poor communities benefiting from the neighborhood improvement project in “Terra Mais Igual.” Similarly, in Niteroi the component of urban mobility will work on areas that are not directly related to the area to be revitalized in downtown or the neighborhoods benefiting from the community development and social inclusion component.

However, it is important to highlight that the components were mostly defined by the municipalities themselves, and the Bank responded to their demand. It has been pointed out that in some cases the choice of unrelated components helped guarantee the viability of the project, as one or more components were projects to be financed with other sources. For example, the Manaus project had three components: the integrated urban development component financed with IDB resources, and urban transportation and mobility components financed by the counterpart. Catanduva had a similar history: the component for the basic sanitation was financed by the counterpart, and the IDB financed the urban requalification and most of the institutional strengthening. However, there is an important distinction between these two examples. While the component financed in Manaus is clearly an integrated urban development project, which had to involve different actors and intervened in the neighborhood as a whole, the physical component financed by the IDB in Catanduva seems to lack the integrated approach.



© OVE, 2015 For PROCIDADES, as for many projects at the municipality level, one of the main concerns is the sustainability of the infrastructure. The Bank simply requires the municipal government to submit a maintenance plan covering 3 years; and even for this short period, the Bank's capacity to enforce implementation is limited. In addition, as municipal institutions tend to be weaker and more vulnerable to political cycles, the 3-year maintenance plan is very likely to not be enough even if implemented. The case of Catanduva is illustrative. Reelection of the mayor in 2008 helped the municipality to approve and execute the project reasonably fast, delivering all the agreed outputs. However, as a new government started in 2013 and priorities changed, the maintenance of the parks delivered by the previous government was not done according to the Bank's standards. In only one year, an elevated rate of depreciation was already observed.⁷⁶ The Bank's intervention related to maintenance was not enough.

Another difficulty in ensuring sustainability is that municipalities may not have the resources or the power to enforce commitments to maintenance plans, instead relying on the community to help with preservation. In Campo Grande, for instance, the Orla Ferroviária—a linear park on the old railroad tracks, finalized in 2013—already shows strong marks of depreciation. Some of the train cars have been destroyed and plants taken away, and the construction company is not maintaining the *pedra portuguesa* (the type of pavement used in the park) according to its contract. The community has never taken ownership of the improved space, so the lack of use allowed for

repeated cases of vandalism. In addition, the local government has had problems in enforcing the maintenance contracts. By contrast, Campo Grande has had no problems in ensuring the sustainability of the Orla Morena Park—a similar park built on a different section of the old railroad tracks that was delivered shortly after Orla Ferroviária and is still in perfect condition. Key to the success of maintenance of Orla Morena was the work of the residents' association (*Associação Amigos da Orla Morena*) created for ensuring its preservation. This means that encouraging the creation of formal or informal community structures for the preservation of the investments can go a long way in ensuring sustainability.



5 Final Remarks and Suggestions

Development is costly, and the experience of PROCIDADES illustrates well the potential tradeoff between profitability and development impact for the Bank. Although PROCIDADES failed in the essence of what it was proposing—a mechanism to reach a market in need while maintaining profitability through a substantial reduction in operational costs—it was a relevant experience for the Bank. It has allowed the accumulation of lessons learned and, more importantly, the development of capacity in a few municipalities, which can now continue working with the Bank at reduced cost.

When PROCIDADES was approved, the Bank did not have much option, given the reduced space to place federal loans. PROCIDADES was a genuine attempt to keep the Bank's relevance in the country and to contribute to Brazilian development, since Brazil's strongest development needs are in medium-sized municipalities. However, when the strategy to reduce costs (outsourcing of supervision, use of TSPs, the software for project management, and the extra support for municipal institutional strengthening) failed, the operating cost became too high. In that sense, the problem of PROCIDADES was that it worked with very small loans. Ultimately, the facility became unviable, since the Bank could not afford such costly operations in Brazil.

The municipalities that seem to have benefitted the most from PROCIDADES are those with a level of institutional capacity that allowed them to handle the loan and strengthen their ability to work on urban development projects. These municipalities were also more likely to be able to absorb the externalities from working with integrated and multisectoral projects, and to have better-defined institutional strengthening components. A weak municipality not only gets fewer resources from the federal government, but is also less prepared to work with complex projects



and the requirements of a multilateral donor. Such a municipality is also less likely to understand the importance of institutional strengthening and more likely to be vulnerable to political cycles. Consequently, the ones that need the most are those that benefit the least.

Drawing on the findings of this report, OVE has the following suggestions:

1. When pursuing innovative approaches with subnational governments, start small and put strong emphasis on properly assessing costs and benefits, as well as all potential risks. Innovation is one of the main mechanisms through which the Bank learns, and it should be pursued when conditions allow. However, the likelihood of both success and learning will be strengthened with careful piloting to assess potential gains, associated cost, and potential risks.
2. To promote development in Brazil's medium-sized municipalities, consider forming long-term partnerships with them and linking loan amounts to their levels of capacity. This approach would allow the Bank to support development of municipalities in high need, while reducing the operational costs associated with working with them over time. Higher amounts to municipalities with better capacity would increase the Bank's efficiency. In addition, a long-term view would allow different aspects of urban development to be treated over time in a more integrated way. Finally, long-term involvement might help in dealing



with the intrinsic vulnerability of projects that is associated with the political cycle. For this to work, the duration and estimated envelope of the partnership should be clear from the outset, so as to encourage medium-sized municipalities to work with the IDB.

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3. Carry out careful institutional analysis early on to identify weaknesses and propose concrete mitigation actions. IDB may also be able to reduce costs to the municipalities by reviewing documentation and implementation processes to eliminate redundant or irrelevant requirements.
4. Allocate substantial resources for institutional strengthening for municipalities with lower institutional capacity. The experience of PROCIDADES shows that the decision to work with weaker municipalities should not be based on profitability but rather on development need. It is challenging and likely to be costly to work with them in the beginning. Bigger loans to municipalities with stronger institutional capacity and greater debt-sustaining ability may generate cross-subsidies that allow the Bank to reach poorer and weaker municipalities.
5. Create mechanisms to ensure project sustainability. Working more with the community on infrastructure maintenance and stressing sustainability with executing agencies may go a long way.

- ¹ BR-L1043.
- ² The Bank had initially proposed to work with municipalities with population between 50,000 and 1 million inhabitants, but changed it following the request of the Brazilian government.
- ³ These were conditions imposed by the Brazilian government.
- ⁴ BR-L1043, paragraph 2.1.
- ⁵ See PR—3086-3, Proposal for a lending facility for financing Brazil's municipalities – PROCIDADES.
- ⁶ A contract with CEF for supporting the Bank in monitoring and evaluating the projects under PROCIDADES was signed in 2007.
- ⁷ BR-L1043, paragraph 2.2.
- ⁸ For more information see Ipea (2011): *Brasil em Desenvolvimento 2011 – Estado, Planejamento e Políticas Públicas*, vol (1), chapters 7 and 8.
- ⁹ In the decade preceding the approval of PROCIDADES, medium-sized cities had annual GDP growth of approximately 4.7%, and migrants in search of better working conditions had been attracted to them. Because these cities generally do not have a substantial difference between birth and mortality rates, intense migration translated into faster population growth: mid-sized cities, defined by cities with inhabitants between 100,000 and 1 million inhabitants, have been growing at approximately 2% per year, faster than large cities in Brazil.
- ¹⁰ The 1988 Federal Constitution established that the municipalities would be responsible for financing their urban development policies.
- ¹¹ Worldwide, Brazil has the fourth largest urban population, after China, India, and the United States. The UN estimates that by 2050, 90% of the Brazilian population will be living in the cities.
- ¹² During the times of limited fiscal space in the 1990s, the federal government had successively created limitations (in the form of a very complex process) to discourage lending at a subnational level.
- ¹³ Like Parana Urbano, which is a loan to the state of Parana for urban development at the municipality level; or PNAFM, a federal loan for supporting the administrative and fiscal management of municipal governments.
- ¹⁴ Federal law number 10,257, which had been under debate since the early 1990s. The law went beyond regulation of the urban space, but had a strong focus on it.
- ¹⁵ See resolution number 294, from September 2006. Source: SEAIN.
- ¹⁶ Bessa, L. F., M. C. Barbosa, R. Spezziali and P. Giraldez (2013) “Avaliação Externa do Mecanismo Creditício para o Financiamento dos Municípios Brasileiros – PROCIDADES”, Memo. The evaluation, contracted by Management, was produced by a team of four consultants, of whom three had actively worked on the design or implementation of PROCIDADES. The self-evaluation also benefited from the technical assistance of a staff who had been involved with PROCIDADES since its design.
- ¹⁷ The Board of Directors called for an evaluation of PROCIDADES upon signature of 10 loan contracts or when 35% of its funds had been committed, whichever happened first. Although the facility had 10 loan contracts signed by December 2010, its self-evaluation started only in 2013.
- ¹⁸ Eguino, H., and M. Provedello (2014), “Cidades em Transformação – Experiências de Desenvolvimento Urbano apoiadas pelo PROCIDADES.” FMM internal Memo.
- ¹⁹ OVE's evaluation RE-447, *Borrowers' Perspectives: How is IDB Serving Higher-Middle-Income Countries?*
- ²⁰ According to BR-L1043, "PROCIDADES will also finance sector interventions (including urban transportation and road systems, sanitation, urban services, environmental management, and social development), insofar as these are part of a municipal development plan or an integrated urban investment program, and preferably complementing integrated urban interventions."

- ²¹ In December 2006 Brazil had 78 projects in execution; by 2009 the portfolio increased by 34%. Since between 2007 and 2009 PROCIDADES approved only 12 projects, this growth cannot be entirely attributed to PROCIDADES.
- ²² The *carta-consulta* includes the initial technical proposal for a project, and is prepared according to the SEAIN standards. It needs to be prepared as a basic requirement by all municipalities interested in taking up a loan. The *cartas-consulta* are subject to the approval of COFIEIX.
- ²³ As suggested in interview with SEAIN staff in Annex C of *Observatorio Metodológico PROCIDADES- Informe Etapas I y II*, Abril 2008, SEAIN even had the expectation of a second phase of PROCIDADES.
- ²⁴ All the analysis in this section uses this date as reference.
- ²⁵ In fact, 23 projects were approved, but two of them were for the same municipality and in this analysis are considered as only one project. The municipality of Niteroi was part of the PROCIDADES pilot. The project approved in 2007 was a standard PROCIDADES one, including components for mobility, neighborhood improvement, downtown revitalization, and institutional strengthening. The loan was cancelled in 2008 and a mechanism was created later to re-approve it. A new loan was approved in 2013, and the project has already been signed. Partially, this fast track was achieved because of the Bank, but also because of high involvement of the mayor himself. The main differences between the two projects lie in the changes in the municipality between 2007 and 2013.
- ²⁶ Cascavel was added later in 2008. All the other municipalities submitted *cartas-consulta* between 2005 and 2008: 4 in 2005, 24 in 2006, 10 in 2007, and 1 in 2008.
- ²⁷ According to the 2010 census, Brazil had 5,665 municipalities, of which 268 were classified as medium-sized according to their population.
- ²⁸ There are PROCIDADES projects in Brasília, Curitiba, and Manaus, which are large capitals with populations above 1 million. In addition, projects in Recife and São Luis have been approved but are not yet disbursing.
- ²⁹ The Institutional Capacity Index used for this analysis consists of four dimensions: Strategic Leadership, Legal and Regulatory Framework; Operations Management; Communication with Citizens in Decision Making; and International Participation, with 61 institutional indicators taken from the MUNIC (Survey of Basic Municipal Information conducted by the Brazilian Census Bureau). More information on how the institutional capacity of the municipalities was computed, and a complete analysis, can be found in Annex III. This evaluation opted not to use the most commonly used FIRJAN index, since it is only an index of Fiscal Management. The Institutional Capacity Index, as explained in Annex III, is a more comprehensive index.
- ³⁰ Costa, C. E. L., M. J. F. Gonzalez, and N. F. de Almeida (2014). *As Relações Econômicas do Brasil com os Principais Bancos Multilaterais de Desenvolvimento* (1990-2004), Ipea Working Paper.
- ³¹ See BR-L1043, para. 4.7
- ³² As had occurred under the Project Preparation and Execution Facility (PROPEF); however the PROCIDADES loans were expected to be much larger than PROPEF operations.
- ³³ Following the Bank's positive experience with Parana Urbano I and II, Parana Urbano III was approved in December 2014.
- ³⁴ See BR-L1043, paras. 4.8 and 5.7.
- ³⁵ All loan documents required a system for project management, which needed to be approved by the Bank, but no further constraints were imposed.
- ³⁶ See RE-355 Annex I.
- ³⁷ This was negotiated between the PROCIDADES team and the government of Brazil. The country already had secured the resources, but had not yet been able to allocate them to projects that EU requirements. The Bank supported the country in redirecting these resources to support the municipalities under PROCIDADES.

- ³⁸ Many of the municipalities in PROCIDADES had already had some experience with the Bank, but through federal and state projects. In particular, eight of the PROCIDADES municipalities had the PNFM (phase I or II): Aracaju (2002), Belford Roxo (2008), Campo Grande (2006), Manaus (2007), Passo Fundo (2006), Recife (2004), and São Luis (2007); and the municipalities of the state of Parana had benefited from the Programa Parana Urbano, which covered 98% of the municipalities of the state, with 2,076 infrastructure projects, 1092 purchases of equipment, and 631 activities of institutional strengthening, with counterpart of the state and the municipalities.
- ³⁹ The original proposal included the proper training for the CEF staff working with PROCIDADES, as a consequence of the lessons learned from the experience with *Habitar Brasil*. However, the team proposed in CEF changed over time, and the training, which took a “learning-by-doing” format, never materialized.
- ⁴⁰ This was confirmed by interviews with Bank specialists and executing agencies that adopted the SOFTPLAN software. According to interviews with the executing agencies, the software was considered to be relatively good as a management tool, and the provider firm quite responsive, and it partially achieved some objectives. The SOFTPLAN system seems to have reduced some of the paperwork associated with the financial reporting required by the IDB. In contrast, the system was never integrated with the physical part of execution, or with such other state and local control agencies as the audit court (*Tribunal de Contas*). Consequently, its functionality was limited. Moreover, as time went by and IDB reduced support to the program, it rapidly became obsolete. As could be expected, the first municipalities to adopt the system—for example, Vitoria and Belford Roxo—struggled more to take advantage of it. However, despite all the difficulty in the beginning, it has been pointed out that they would not have been able respond to all the data demand from the Bank without the software. In comparison with the projects with CEF and BNDES, the software made the IDB project much easier to manage.
- ⁴¹ Preparation time is computed by comparing the moment in which the 40 hours or more have been reported in the TRS for that project and the approval date. OVE opted to use this indicator, instead of the one proposed in Annex II of BR-L1043, because it is a more reliable indicator. The use of different types of comparison is to provide the clearest picture possible of what was achieved with PROCIDADES.
- ⁴² This is expected, since the average for the country as a whole includes the loans to the organs of the federal and state governments, which tend to have higher institutional capacity.
- ⁴³ This is well above the 22-month target set in for PROCIDADES loans, but the metric is different and not directly comparable. OVE opted to consider the start point of the project as the moment when 40 hours or more have been reported in the TRS, instead of the start date reported by management. The starting date reported by management can be easily changed, and the Realignment Evaluation (RE--451-2) showed that this happens frequently, making it unreliable.
- ⁴⁴ Vitoria was the first one in 2005; all the others were submitted in 2006 (25) and 2007 (12), except for Cascavel, which submitted its *carta-consulta* in 2011 and had one of the shortest preparation times.
- ⁴⁵ The case of Brasilia illustrates this point. Although Brasilia was among the first municipalities to submit its *carta-consulta*, the government of the Federal District experienced problems with SEAIN and the Treasury. The project, whose preparation began in 2006, aimed at developing some of the Economic Development Areas. In 2009 political problems led to a sequence of changes in the government, with three different governors taking office in as many years. During this time, not only was the government unstable, but also the executing agency has changed several times. Currently it is composed of permanent staff, but it has had a history of people being nominated and leaving shortly after – leading to increasing costs for the Bank, which had to train the new team every time.
- ⁴⁶ PROCIDADES Toledo was approved in 15 months and reached eligibility in 8.
- ⁴⁷ The projects in Toledo and Catanduva were among the fastest to be approved and to disburse; in both the mayor was reelected in 2008.

- ⁴⁸ Between 2007 and 2010, most of the loans to municipalities were made through PROCIDADES. So the comparison group includes mostly a few older projects, approved between 2000 and 2006, and projects approved more recently.
- ⁴⁹ Another factor to take into account is that the situation of the Bank changed dramatically after 2009, when the international financial crisis brought an extraordinary demand for Bank resources. Also, during the period the Bank approved a CCLIP to BNDES for US\$3 billion (BR-X1001, executed between 2005 and 2010). Thus the need for placing resources became less evident as time passed.
- ⁵⁰ See OVE (2014), “Evaluation of the Results of the Realignment,” RE-451-2.
- ⁵¹ However, the costs of maintaining and upgrading SOFTPLAN were not clearly assigned.
- ⁵² Some municipalities took even longer than that; for instance, Vitoria started its carta-consulta in 2005 and got eligibility in 2009.
- ⁵³ CAF entered in Brazil in 1996, but with very small participation, mostly in the private sector. When the Brazilian government opened to international organizations working directly with municipalities and IDB launched PROCIDADES, CAF used this opportunity to also expand its portfolio at the subnational level in Brazil. Between 2006 and 2010, CAF approved 12 loans to support Brazilian municipalities.
- ⁵⁴ CAF (2010), “40 Iniciativas para o Desenvolvimento Sustentável”, at <http://www.caf.com/media/3729/40CAFPortugues.pdf>.
- ⁵⁵ Among its five original blocks was infrastructure, including housing, sanitation, and transport, which are mostly investments at the municipality level.
- ⁵⁶ It provided support to 173 municipalities to recover their historic heritage.
- ⁵⁷ It included PAC *Cidade Mellhor* to improve quality of life in large and medium-sized municipalities, PAC *Comunidade Cidadã* to increase the supply of basic services in poor neighborhoods, and PAC *Minha casa, minha vida* to reduce the housing gap, among others.
- ⁵⁸ PROCIDADES projects’ cost of preparation averaged US\$207,000, while the average of FMM investment projects other than PROCIDADES for 2007-2014 averaged US\$210,000.
- ⁵⁹ For the purpose of computing the average preparation cost, the two Niteroi projects were considered as just one.
- ⁶⁰ This indicator was not considered in the proposal of the Facility but is relevant, as it gives an idea of the return on what is being spent.
- ⁶¹ The analysis took into consideration all loans with more than 25% of disbursement, and the correlation between these two variables is negative and statistically significant.
- ⁶² The regression model is the natural log of execution costs regressed against the institutional capacity index constructed by OVE. Similar results were found when including a dummy indicating whether this is the first operation with the municipality.
- ⁶³ The institutional capacity index used in this report is highly correlated with the FIRJAN index, with some notable differences – among them the results for Cascavel. It is important to notice, however, that the ICI is a more comprehensive index of institutional capacity, when compared with the FIRJAN index, which is for Fiscal Management.
- ⁶⁴ This municipality had a loan proposal prepared twice – in 2008 for an amount of US\$51.5 million, above the limit of the facility, and then in 2011, when the components were readjusted and the project amount was reduced to US\$43.6 million.
- ⁶⁵ As was discussed above, right after the approval of PROCIDADES the Brazilian Government launched its PAC, which strongly supported municipalities on urban development. As of January 2014, none of the municipalities with projects in inventory had signed a loan with another multilateral, suggesting that the Bank could have been replaced by PAC, but not by another multilateral.

- ⁶⁶ The average value of the institutional capacity index of the municipalities with projects in inventory is 0.65, while the ones with approved projects average 7.3.
- ⁶⁷ The Bank had several TCs approved for supporting PROCIDADES, with funds from the Japanese Trust Fund (US\$2.5 million), the Spanish Trust Fund (US\$224.2 million), the Korean Trust Fund (US\$2.5 million), and the European Union (€7.3 million).
- ⁶⁸ As registered in the Observatorio Metodológico PROCIDADES, the External Evaluation of PROCIDADES and Eguino and Provedello (2014), op. cit.
- ⁶⁹ GN-2652-5 - Special Program and Multidonor Fund for the Emerging and Sustainable Cities Initiative.
- ⁷⁰ Costa, C. E. L., M. J. F. Gonzalez, and N. F. de Almeida (2014). *As Relações Econômicas do Brasil com os Principais Bancos Multilaterais de Desenvolvimento* (1990-2004), Ipea Working Paper.
- ⁷¹ This information comes from the Summary of the Projects/Programs Portfolio according to the internal SEAIN system, published on the SEAIN website in January 2014. IDB then had 55.7% of the municipal loans, followed by CAF (20.25%), the World Bank (10.13%), FONPLATA (5.06%), and others.
- ⁷² Some of the interviewed executing agencies said they had had up to two missions of the Bank per year.
- ⁷³ That is, for example, the example of Toledo, Campo Grande, Aracaju, and Manaus.
- ⁷⁴ For instance, while Curitiba had its first Master Plan approved in the 1980s, many of the other municipalities benefiting from PROCIDADES, like Belford Roxo, developed their first Master Plans shortly after the approval of the *Estatuto da Cidade*—that is, around the same time as the *carta-consulta* was submitted to SEAIN.
- ⁷⁵ Curitiba had three loans with the IDB. The first two focused on mobility (BR0209 of 1995 and BR0375 of 2004), and the third was the PROCIDADES loan (BR-L1083). According to the executing agency, the second loan was the key one in ensuring good environmental and social safeguards. The same approach was taken in the PROCIDADES loan.
- ⁷⁶ According to the project's Project Completion Report, the Park Management Plan prepared in January 2015 reported that 81.5% of the equipment needed substantial maintenance work and 38% of the plants were in poor condition in the Park Mandaçaí. Additionally, problems with illumination, access ways, and drainage system were reported. Park Ipês was in slightly better condition.