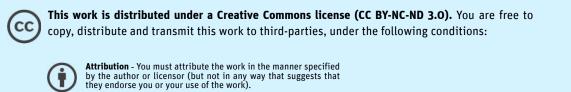


Approach Paper

Evaluation of PROCIDADES



Inter-American Development Bank November 2014



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TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	PROCIDADES PORTFOLIO AT A GLANCE	5
III.	SCOPE AND METHODOLOGY	9
IV.	RESOURCES AND TIMELINE 1	2

ANNEX A. LIST OF PROCIDADES PROJECTS

ANNEX B. COST BY COMPONENT OF PROCIDADES PROJECTS

I. INTRODUCTION

- 1.1 **Brazilian cities have grown substantially in recent decades, and the problems of rapid urbanization have become more visible in the country.** While in the 1970s 56% of the population lived in the cities, today about 83% do.¹ Worldwide, Brazil has the fourth largest urban population, after China, India, and the United States. Because of the lack of proper planning, this fast growth has meant critical shortages of the cities' basic services and urban infrastructure. In the early 2000s, in the 27 metropolitan areas of the country, one in every four inhabitants was living in poverty, and only 38.6% of the lowest quintile had access to sanitation services.
- 1.2 **During recent years, medium-sized cities have shown even greater economic and population growth than other cities in Brazil, and have experienced further pressures on their infrastructure.** In the last decade, medium-sized cities have had annual GDP growth of approximately 4.7%, and migrants in search of better working conditions have been attracted to them. Because these cities generally do not have a substantial difference between birth and mortality rates, intense migration has translated into faster population growth: mid-sized cities have been growing at approximately 2% per year, faster than large cities in Brazil.
- 1.3 The Bank has long worked with Brazil in urban development as a way of improving the quality of life of the Brazilian population, focusing mostly on larger municipalities (OVE RE-355, Annex I). During the 1990s the Bank conducted operations only with large municipalities that could receive a sovereign guarantee. There were two main kinds of interventions: operations to enhance the efficiency and coverage of public services (water and sanitation, sewage, solid waste and urban transport), and multisector programs, tackling poverty by improving specific low-income neighborhoods in large cities. For example, Habitar-Brasil, approved in 1998, was the first multisectoral urban development program that included housing, water and sanitation, and environment. Programs like Favela-Bairro I (1995) and II (1998)-whose main objective was to provide access to basic public services and relocate or give land tenure to the population living in *favelas*—constituted part of the urban and housing policy of the Municipality of Rio de Janeiro for low-income areas. Parana Urbano I (1995) and Parana Urbano II (2002) assisted municipal governments in providing public services and supporting job creation.
- 1.4 The Bank's experience in the late 1990s and early 2000s demonstrated the need to both work more closely with municipalities and strengthen monitoring and evaluation. More specifically, Habitar and Parana Urbano

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The UN estimates that by 2050, 90% of the Brazilian population will be living in the cities.

highlighted the need to work closely with communities and municipal associations in the design and execution of interventions. In particular, interventions needed to take into consideration the heterogeneity of socioeconomic contexts and institutional capacities among municipalities.² Projects also lacked monitoring and evaluation systems to assess their effectiveness.³ The participation of psychologists and social workers in the Habitar projects and the creation of the *Ministerio das Cidades* (Ministry of Cities) demonstrated the importance of professional support in helping weak institutions to successfully manage public resources and projects. The experience in Habitar also supported the need to include mechanisms to offset the potential negative effects on project design of changes in governments and executing agencies. Finally, Habitar demonstrated the need to include financial alternatives to deal with exchange rate movements that decreased the availability of resources in domestic currency.

- 1.5 The mechanisms for the Bank's work on urban development in Brazil became less viable after 2000. The *Lei de Responsabilidade Fiscal* (Fiscal Responsibility Law or FRL), approved in 2000, sought to consolidate public finances of states and municipalities in Brazil.⁴ It limited 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 the Bank, which had been the prevailing strategy for directing IDB resources to municipalities. Second, in parallel the lending capacity from public banks was restricted, reducing the availability of other sources of credit to municipalities. Until then most of the lending for municipalities was financed by either the *Caixa Econômica Federal* (CEF, the federal public bank) or the *Banco Nacional de Desenvolvimento Econômico y Social* (BNDES, the Brazilian Development Bank), and both soon reached their limit of exposure to operations in the public sector.
- 1.6 **Building on the Bank's experience at the municipal level, and as a response to the regulation changes in Brazil, in 2006 the PROCIDADES facility was approved in the amount of US\$800 million.** PROCIDADES targeted medium-sized municipalities, making available up to US\$50 million for each municipality that qualified for a loan. According to the PROCIDADES proposal, "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

² Paraná Urbano II and Desenvolvimento Urbano de Para were approved in 2002. Although very similar in their design, these operations showed distinctly different results because of differences in the capacity of the executing agencies.

³ For more information on the lessons learned from these projects and the main problems they faced, see RE-355 Evaluación del Programa de Mejoras de Las Condiciones de Vida en Las Ciudades y de Financiamiento de Gobiernos Subnacionales, Country Program Evaluation Brazil: 2000 – 2008, Annex I.

⁴ During the times of limited fiscal space in the 1990s, the federal government had successively put limitations (in the form of very complex processes) to discourage lending at a subnational level.

Brazil whose financing needs are not being met."⁵ Any municipality with a population between 100,000 and 1 million could apply for a loan under the facility, provided that it could finance 50% of the project with its own resources.⁶ Once the project had been cleared by the Secretaria de Assuntos Internacionais (SEAIN), the municipality would work directly with the Bank to develop the project.

- 1.7 A number of factors made PROCIDADES interesting and, more importantly, feasible in the early 2000s. Subnational governments had high demand for resources for infrastructure. This was particularly true for the medium sized municipalities, which had grown very fast during the previous decade in population and in economic activity but did not have the resources to invest sufficiently in infrastructure. The FRL created the financial capacity of subnational governments to take up loans. The 2002 elections brought the Workers Party (PT) into power. PT had always had municipal development as one of its priorities, as it was created mostly from municipal movements. When President Lula took power in 2003, he created a Ministry of Cities in charge of dealing with municipal affairs, developing the guidelines for the Estatuto da *Cidade* (the City Statute of Brazil). Given the already ample autonomy given to subnational governments in the 1988 Constitution, broader opportunities opened for multilaterals to work directly at a municipal level, and not limited to just big cities. The IDB understood this as an opportunity to work in a new niche in Brazil.
- 1.8 The PROCIDADES facility was designed to increase the efficiency and effectiveness of projects at the municipality level in Brazil. PROCIDADES introduced a number of innovations to streamline the municipal project preparation cycle⁷: (i) reducing the number of steps in the Bank's project cycle; (ii) using technical support providers to prepare the technical information for the operations; (iii) contracting the CEF to support the country office in supervising and monitoring the projects; and (iv) simplifying the internal project approval processes by decentralizing some decision-making steps to the country office. This meant that PROCIDADES decentralized the entire responsibility for individual projects to the country office and outsourced project preparation and supervision to local actors and CEF.⁸ Another major aspect of the facility was the option to work in local currency, which was a requirement of the Brazilian government. This meant that disbursements for PROCIDADES operations in Brazilian Reais would be eligible for conversion under the Local Currency Facility. Additionally, PROCIDADES implementation would include a system to

⁵ BR-L1043.

⁶ These were conditions imposed by the Brazilian government in an attempt to control the demand for PROCIDADES loans.

⁷ See PR—3086-3 Proposal for a lending facility for financing Brazil's municipios – PROCIDADES.

⁸ A contract with CEF for supporting the Bank to monitor and evaluate the projects under PROCIDADES was signed in 2007.

facilitate the process of identifying and prioritizing risks—identifying not only the principal risks of an operation, but also the causes of each risk.

- The priority action lines financed under PROCIDADES included 1.9 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: (i) neighborhood improvements (to address the needs of populations living in lowincome neighborhoods through integrated multi-sector investments in urban infrastructure and services, social services, and establishment of land ownership records system); (ii) urban rehabilitation and renewal (to 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). 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.
- 1.10 A self-evaluation of PROCIDADES was completed in 2013. 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. Though by December 2010 the facility had 10 loan contracts signed, its self-evaluation started in 2013. The self-evaluation benefitted from the inputs of consultants and staff who worked in the design and implementation of PROCIDADES, who helped to assess the mechanism and results achieved up to September 2013.⁹ The self-evaluation concluded that proximity to the client had improved the relation with the Bank and the facility also helped reduce some costs. It also showed 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). On the other hand, the self-evaluation provided some evidence that the innovative aspects of PROCIDADES were not used in their entirety, and a number of adjustments were necessary.
- 1.11 As the Bank moves forward with its strategy of strengthening its engagement with subnational governments, especially among high- and middle-income countries, the PROCIDADES experience becomes increasingly 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 SG lending has largely been limited to Brazil," but "several countries indicated that IDB could provide significant value-added at the

⁹ The evaluation hired by management was produced by a team composed of 4 consultants, and 3 of them had also worked in the design and implementation of PROCIDADES. The self-evaluation was benefited from the technical assistance of a staff who had been involved with PROCIDADES since its design.

subnational level."¹⁰ PROCIDADES, as a pioneer in promoting the Bank's work at the subnational level, could provide valuable lessons regarding what works, how it works, and what challenges need to be overcome in the future.

1.12 **OVE is undertaking an independent evaluation of PROCIDADES.** Since the creation of the facility, 22 projects for over US\$500 million have been approved, and about half of the approved amounts have been either disbursed or cancelled. Therefore, the time is now ripe for taking stock of the PROCIDADES facility. In doing so, OVE's independent evaluation will not only validate the findings of the self-evaluation, but it will also address some new questions not raised there. For instance, the evaluation will look at the strategies to generate demand from the municipalities, the cost and benefits for the bank, and the importance of political cycles for the effectiveness of the projects. In general, the evaluation exercise has two overarching objectives: to assess PROCIDADES as a lending facility and evaluate the extent to which it achieved its objectives; and to analyze, to the extent possible, the impact on the municipalities benefiting from the program.¹¹

II. PROCIDADES PORTFOLIO AT A GLANCE

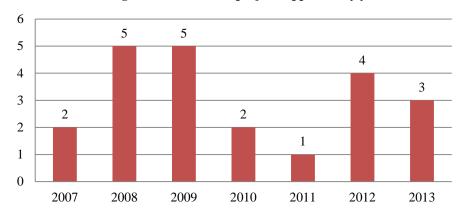
2.1 According to the PROCIDADES proposal, it was expected that a large number of projects would be approved in the first years, but this did not happen. In fact, the proposal stated that "because of the number of individual operations expected under PROCIDADES, the size of the portfolio administered by the Country Office in Brazil will double within three years."¹² In practice, since the launch of PROCIDADES in 2007, only 22 projects have been approved (Figure 2.1). The total value of the portfolio reached US\$958 million in 2013, of which 53% was financed by the IDB (US\$512 million) and 46% by local funds (US\$445 million). During the seven years of operation, from 2007 until 2014, 34% of the resources approved by the Bank have been disbursed (US\$175 million), and 9% have been cancelled (US\$ 47.7 million)¹³.

¹⁰ OVE's evaluation RE-447, Borrowers' Perspectives: How is IDB Serving Higher-Middle-Income Countries?

¹¹ The Terms of Reference of the self-evaluation did not

¹² In December 2006 Brazil had 78 projects in execution; the portfolio it increased by 34% by 2009.

¹³ This is due to the fact that the loan for Niterói, cancelled in 2008, was reapproved (see Annex A for the amounts).





2.2 Although there has been no regional targeting for the PROCIDADES projects, most are in the south and southeast of the country (Figure 2.2), and some are in municipalities that exceeded the population size target. In 2007 Brazil had 5,664 municipalities, of which only 239 were classified as medium-sized, following the definition above.¹⁴ Five of the PROCIDADES projects are in municipalities with more than one million inhabitants.¹⁵ There are 16 projects in the south and southeast regions (about 12% of all medium-sized municipalities in these regions); 4 in the country's poorest regions, the north and northeast regions (about 6% of the medium-sized municipalities); and 2 in the center-west region, in Brasilia and Campo Grande. (Annex A provides a list of all projects under PROCIDADES, with their amounts and disbursements.)

Source: IDB's internal information systems.

¹⁴ According to the 2010 census, Brazil had 5,665 municipalities and 269 of them were classified as medium-sized according to their population.

¹⁵ There are PROCIDADES projects in Brasilia, 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.

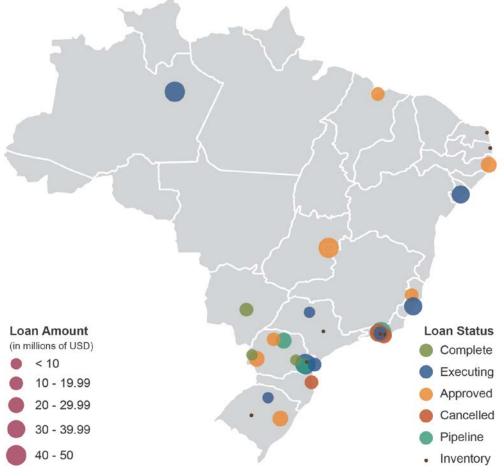


Figure 2.2 Geographic distribution of PROCIDADES projects by amount and status

Source: IDB's internal information systems.

2.3 Of the 22 approved projects, 3 operations have been completed and 3 cancelled, although one of them was reapproved (see Figure 2.3). Toledo (BR-L1085) was completed in 2012, and Campo Grande (BR-L1104) and Ponta Grosso (BR-L1099) have closed recently and do not yet have a Project Completion Report. Among the cancelled projects, Niterói (BR-L1055) was approved in 2007 as part of the pilot, but was cancelled in 2011 without disbursement. However, it was re-approved in 2013 (BR-L1386), with a design that is very similar to the original one. Nova Iguaçu (BR-L1058) and Itajai (BR-L1096) were cancelled in 2011 and 2013, respectively.

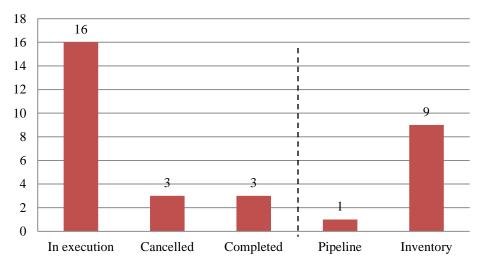
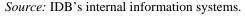


Figure 2.3 Project status (number of projects)^a



Note: The line in the graph separates projects already approved (executing, cancelled, or completed) from projects in preparation. ^{a.} The date of reference is May 9^{th} , 2014.

2.4 As of May 9th, 2014, 16 projects were under execution in the operating portfolio. In addition, nine projects were prepared but cancelled before approval, and one more is in the pipeline.¹⁶ Of the projects under execution, only nine have had disbursements; the other seven are active—they have been approved by the Board, but the Loan Contracts with the municipality have not yet been signed. Among the projects with some disbursements, three have disbursed less than 50%: Novo Hamburgo (BR-L1187) is 2.8% disbursed, Paranagua (BR-L1226) is 25% disbursed, and Manaus (BR-L1088) is 46.5% disbursed. The remaining projects are at a mature stage, with an average of 72% disbursed on their approved amounts. Detailed information per project is shown in Figure 2.4.

16

Duque de Caixas (BR-L1075), Londrina (BR-L1094), and Araucaria (BR-L1095).

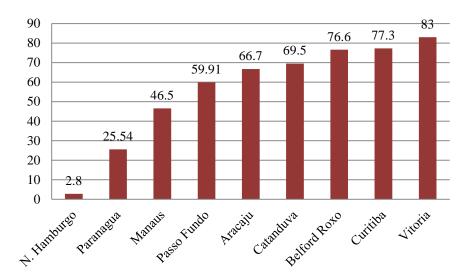
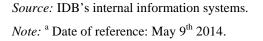


Figure 2.4 Percentage of disbursement^a



III. SCOPE AND METHODOLOGY

- **3.1** The PROCIDADES facility 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."¹⁷ 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."¹⁸
- **3.2** This evaluation will assess the relevance, effectiveness, efficiency, and sustainability of both the facility and its individual loans. Regarding the facility, the overarching question is to what extent PROCIDADES has been useful for working at the municipal level in Brazil (see Table 3.1 for the full list of questions, divided according to the OECD-DAC criteria). The second part of the evaluation involves the analysis of the individual loans. Since one of the eligibility criteria was that the project had to be part of the Municipal Urban Development Plan, the individual projects will be mostly assessed from the point of view of their effectiveness, efficiency, and sustainability. (More information about the project-level evaluative questions is provided in Table 3.2).

¹⁷ BR-L1043, paragraph 2.1.

¹⁸ Ibid, paragraph 2.2.

3.3 A case study for each of the completed projects will be prepared, and indepth analysis will be also conducted for a sample of projects with more than 50% disbursements. To ensure diverse cases for the in-depth analysis, the criteria for selection takes into account (i) the institutional capacity of the municipalities, (ii) their location, and (iii) their level of execution. The cases selected include Vitoria, Curitiba, Belford Roxo, Aracaju, Catanduva, and Manaus. Information will also be drawn from the existing evaluations, including Observatório PROCIDADES¹⁹ (2008, 2012), which looked at a selected group of projects, including Vitoria and Campo Grande, as well as assessments of the implementation of the mechanism in an earlier stage.

Evaluation criterion	Evaluative questions	Method
Relevance	 Was PROCIDADES' design appropriate? What was PROCIDADES' additionality? 	Desk review and interviews to assess the demand for the facility. Comparison with the work of other organizations at the municipality level in Brazil.
Effectiveness	 Did PROCIDADES streamline the preparation and execution of projects at the municipality level in Brazil? Was the institutional setting appropriate? Were the innovations proposed in PROCIDADES successful? Did the integrated development urban approach proposed in PROCIDADES increase synergies across sectors in the Bank and in the municipal governments? Did the facility meet the needs for municipal financing in the municipalities reached by PROCIDADES? Did PROCIDADES reach the neediest municipalities? What was the role of the Bank in stimulating the demand of municipalities? How did the structure of the executing agencies affect project execution? Were projects affected by political cycles in the municipality? 	Desk review to compare project documents. Structured interviews with the executing agencies to assess implementation of the projects. Structured interviews with Bank sector specialists working in PROCIDADES projects and areas of intervention. Interviews with SEAIN and CEF. Analysis of municipal administrative data and IDB internal information systems (e.g., OVEDA, OPUS, LMS). Comparison of PROCIDADES operational manual with what was in fact implemented.
Efficiency	 Did the facility reduce time and cost of the project preparation and execution? Why were projects cancelled or did not move forward? How much effort was used in the projects in inventory, and what was the cost of that? 	Analysis of data in the Bank's internal information system. Interviews with government agencies and IDB specialists.

Table 3.1 The evaluation	of the P	PROCIDADES	facility
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¹⁹ OBSERVATORIO PROCIDADES was developed by KNL and FMM with the objective of creating a space to contemplate about the lessons learned in the implementation of PROCIDADES. It was divided in two phases, in 2008 and 2012, and generated several technical notes on PROCIDADES.

Evaluation criterion	Evaluative questions	Method	
Sustainability	 Is the PROCIDADES model viable for the Bank to work with municipalities in LAC? In general, what are the necessary conditions to make a model like PROCIDADES viable? What are the risks of this approach? 	Comparison of municipality projects with other integrated urban development projects in the Bank. Analysis of the Risk Management Assessments. Interviews with Bank specialists.	

Evaluation criterion	Evaluative questions	Method
Relevance	• How much did the PROCIDADES projects contribute to the progress of the municipalities' Urban Development Plan?	Analysis of the Municipal Urban Development Plans, comparison with the project approved under PROCIDADES, structured interviews with municipal government agencies. Analysis of TCs under PROCIDADES.
Effectiveness	 Among completed and almost completed projects, did they help improving quality of life in the municipalities? Were the targets for the outcomes achieved? Did projects properly target poor neighborhoods? Did the projects help achieve economic development? Were the targets for the output achieved? What can be inferred about attribution? What was the Bank's value-added? What was the Bank's value-added in promoting institutional capacity strengthening? 	Desk review of project documents, including LD, PMRs, PCRs (when available), and midterm and final evaluations (when available). Interviews with municipal government agencies and the project team. Analysis of TCs under PROCIDADES. Analysis of available impact evaluations. ²⁰
Efficiency	• Economic analysis of projects.	Revision of the economic analysis provided for each project.
Sustainability	• Analysis of the risks and mitigation measures identified.	Revision of the risk and management documents. Interviews with executing agencies and project teams.

Table 3.2 The evaluation of PROCIDADES projects

²⁰ SPD has been working with the team leaders on impact evaluations of projects closed or closing sing, such as Toledo and Campo Grande. To the best knowledge of OVE such evaluations were not yet made public.

IV. RESOURCES AND TIMELINE

4.1 **This evaluation will be conducted by Anna Crespo (team leader), Juan Manuel Puerta, and Lucia Martin**. It is expected to be concluded in the beginning of 2015 (see timeline in Table 4.1).

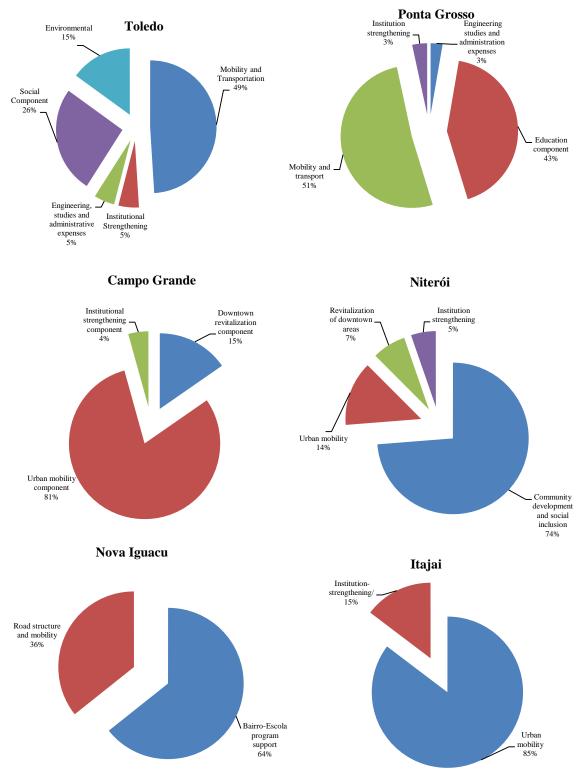
Activity/product	Date	
Approval of Approach Paper	November 2014	
First draft of the report	March 2015	
Internal peer review	April 2015	
External peer review	April 2015	
Final report	May 2015	

Tabla	11	Timeline
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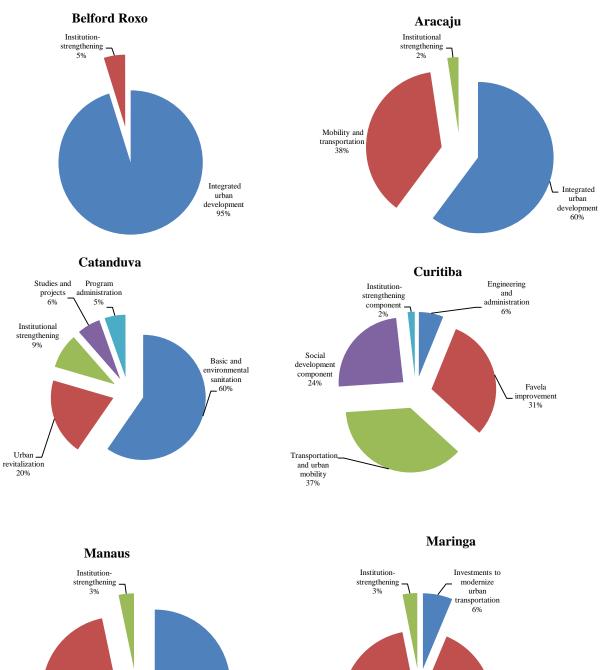
	Project	Municipality	Approval Year	Status	IDB Funding US\$ '000	Total Cost US\$ '000
1	BR-L1085	Toledo	2008	Completed	7,333	14,667
2	BR-L1099	Ponta Grosso	2008	Completed	7,500	15,000
3	BR-L1104	Campo Grande	2008	Completed	19,382	38,764
4	BR-L1055	Niterói	2007	Cancelled	26,470	44,130
5	BR-L1058	Nova Iguacu	2007	Cancelled	34,500	57,500
6	BR-L1096	Itajai	2010	Cancelled	13,200	26,400
7	BR-L1077	Belford Roxo	2008	Active	13,200	26,400
8	BR-L1084	Aracaju	2009	Active	30,250	60,500
9	BR-L1171	Catanduva	2009	Active	8,439	16,878
10	BR-L1083	Curitiba	2009	Active	50,000	100,000
11	BR-L1088	Manaus	2009	Active	50,000	100,000
12	BR-L1087	Maringá	2009	Active	13,000	26,000
13	BR-L1057	Vitória	2009	Active	39,100	65,200
14	BR-L1163	Passo Fundo	2010	Active	9,800	19,600
15	BR-L1226	Paranagua	2011	Active	16,649	37,000
16	BR-L1183	Colatina	2012	Active	11,000	22,000
17	BR-L1187	Novo Hamburgo	2012	Active	23,910	47,820
18	BR-L1190	Recife	2012	Active	20,015	40,030
19	BR-L1117	São Luís	2012	Active	13,590	27,183
20	BR-L1344	Cascavel	2013	Active	28,750	57,500
21	BR-L1076	Distrito Federal	2013	Active	50,000	71,430
22	BR-L1386	Update Niterói	2013	Active	26,470	44,130
					512,558	958,132
23	BR-L1094	Londrina		Pipeline	23,400	42,900
24	BR-L1095	Araucaria		Inventory	20,000	40,000
25	BR-L1075	Duque de Caxias		Inventory	43,614	87,228
26	BR-L1100	Colombo		Inventory	9,187.50	18,375
27	BR-L1080	João Pessoa		Inventory	30,000	50,000
28	BR-L1056	Natal		Inventory	33,780	56,300
29	BR-L1086	Piracicaba		Inventory	16,000	32,000
30	BR-L1097	São Gonçalo		Inventory	12,000	20,000
31	BR-L1098	Sao J. do Mereti		Inventory	16,500	33,000
32	BR-L1105	Santa Maria		Inventory	8,400	16,800
	Total Note: the reference date is May 9 th , 2014.					396,603

ANNEX A. LIST OF PROCIDADES PROJECTS

Note: the reference date is May 9th, 2014.



ANNEX B. COST BY COMPONENT OF PROCIDADES PROJECTS

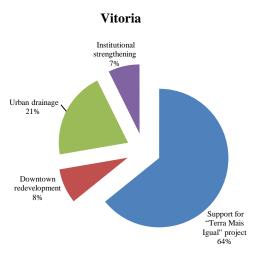


Integrated urban development 46%

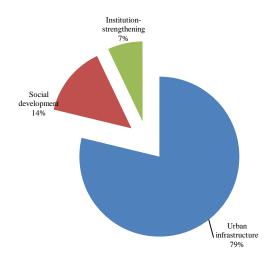
> Institutionstrengthening 91%

Urban transportation and mobility

51%

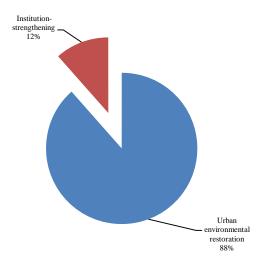


Paranagua



Passo Fundo

Colatina



Novo Hamburgo

Recife

Annex B Page **4** of **4**

