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**STAFF APPRAISAL REPORT**

**BRAZIL**

**MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL**

**OCTOBER 3, 1989**

**LAI Department  
Latin American and the Caribbean Regional Office**

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### Currency Equivalents

	March 3, 1989		
Currency Unit	=	Cruzado Novo (NCz\$)	
US\$1	=	NCz\$1.00	
NCz\$1	=	US\$1.00	

### Fiscal Year

January 1 - December 31

### Weights and Measures

1 meter (m)	=	3.28 feet (ft)
1 kilometer (km)	=	0.62 mile (mi)
1 square kilometer (km <sup>2</sup> )	=	0.386 square mil (sq mi)
1 metric tonne (t)	=	2200 pounds

### List of Acronyms

#### Rio Grande do Sul:

BADESUL	Rio Grande do Sul State Development Bank
BANRISUL	Rio Grande do Sul State (Commercial) Bank
CD	Board of Directors of FUNDOPIMES (Conselho Diretor)
COHAB-PE	Popular Housing Company of Rio Grande do Sul
CORSAN	Rio Grande do Sul State Water Company
DAEB	Water and Sewerage Department of Municipality of Bage
DAE	Water and Sewerage Department of Municipality of Santana do Livramento
DMAE	Porto Alegre Municipal Water and Sewerage Department
FDRH	Human Resource Development Foundation
FUNDOPIMES	PIMES Urban Development Fund
MWC	Municipal Water Companies
PGAF	(Municipal) Global Financial Action Plan
PIMES	Integrated Program of Social Improvement
RS	The State of Rio Grande do Sul
SAMAE	Autonomous Water and Sewerage service of Caxias do Sul.
SANEP	Autonomous Sanitation Service of Pelotas
SCP-RS	RS State Secretariat of Coordination and Planning
SDO-RS	RS State Secretariat of Urban and Regional Development and Public Works
SECFAZ-RS	RS State Finance Secretariat
SEMAE	Municipal Water and Sewerage Service of São Leopoldo
STASC-RS	RS State Secretariat of Labor and Social and Community Action

#### Others

CEF	Federal Economic Fund
FIBGE	Brazilian Statistical and Geographic Foundation
ICMS	Merchandise Circulation (Value Added) Tax
OM	Operation Manual (one of a set of eight)
PLANASA	National Sanitation Plan
SUDS	Unified (Federal-State-Municipal) Public Health System

BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
STAFF APPRAISAL REPORT

<u>Table of Contents</u>	<u>Page No.</u>
<u>LOAN AND PROJECT SUMMARY</u> . . . . .	iv
<b>I. <u>THE SECTOR</u></b> . . . . .	<b>1</b>
General Background on Urbanization . . . . .	1
Government Structure and Provision of Urban Services . . . . .	2
Public Sector Financing and Intergovernmental Fiscal Relations . . . . .	3
Public Sector Administration . . . . .	4
Sector Development Issues and Objectives . . . . .	4
Bank Lending for Urban Development . . . . .	5
Current Strategy . . . . .	6
Rationale for Bank Involvement . . . . .	6
<b>II. <u>THE PROJECT</u></b> . . . . .	<b>7</b>
Project Objectives and Description . . . . .	7
Project Components . . . . .	8
Selection Criteria . . . . .	9
Project Costs . . . . .	9
Financing Plan . . . . .	10
<b>III. <u>PROJECT IMPLEMENTATION</u></b> . . . . .	<b>11</b>
Institutional Arrangements . . . . .	11
Monitoring and Evaluation of Project . . . . .	13
Procurement . . . . .	13
Disbursement . . . . .	15
Accounts and Audits . . . . .	15
Reporting . . . . .	16
Legal Aspects . . . . .	16
<b>IV. <u>FINANCIAL ASPECTS</u></b> . . . . .	<b>17</b>
Urban Development Fund - FUNDOPIMES . . . . .	17
Policies on Cost Recovery, Grants and Subsidies . . . . .	18
Grants and Subsidies . . . . .	19
Appraisal of Sub-Borrowers . . . . .	19
Appraisal of Sub-Projects . . . . .	20

This report is based on the findings of an appraisal mission which visited Brazil during February/March 1989. The mission comprised Messrs/Mmes B. Menezes (Mission Leader) LA1IE, R. Gilbert (Deputy Mission Leader) CONS, E. Abbott LEGLA, P. Doty, T. Lobo, M. Sheehan and D. Vetter (CONS).

This project was prepared in parallel and appraised at the same time as the Municipal Development Project in the State of Paraná (Ln 3100-BR), approved by the Board of Directors of the World Bank on June 22, 1989.

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V.	<u>PROJECT JUSTIFICATION AND RISKS</u> . . . . .	21
	Demand for FUNDOPIMES Funding . . . . .	21
	Financial Impact . . . . .	21
	Economic Justification . . . . .	21
	Poverty Impact . . . . .	21
	Environmental Impact . . . . .	22
	Project Benefits and Risks . . . . .	22
VI.	<u>AGREEMENTS REACHED DURING NEGOTIATIONS AND RECOMMENDATIONS</u> . . . . .	23
	Agreements were Reached during Negotiations: . . . . .	23
	Conditions of Disbursement . . . . .	25
	Conditions of Effectiveness . . . . .	25

ANNEXES

- ANNEX 1: Demographic and Economic Trends in the State
- ANNEX 2: State and Municipal Finances  
 - Impact of the New Constitution  
 - Debt Capacity  
 - Project Impact upon Municipal Finances
- ANNEX 3: Project Description  
 - Institutional and Human Resource Development Component.  
 - Water and Sewerage Component  
 - Pilot Housing sub-project  
 - Community Facilities sub-projects  
 - Other Infrastructure Components
- ANNEX 4: Selection Criteria for Eligible Sub-borrowers
- ANNEX 5: Selection Criteria for Eligible Sub-Projects
- ANNEX 6: Project Cost, Financing Plan and Disbursement Schedule
- ANNEX 7: Implementation Arrangements
- ANNEX 8: Operation Manuals
- ANNEX 9: Monitoring and Evaluation of Project
- ANNEX 10: Urban Development Fund - FUNDOPIMES  
 - Key Features of FUNDOPIMES  
 - The Managers and Users of FUNDOPIMES  
 - Operating Principles of FUNDOPIMES  
 - Legal Basis of FUNDOPIMES
- ANNEX 11: On-lending Terms and Cost Recovery Policy
- ANNEX 12: The Executing Agency: BADESUL
- ANNEX 13: CORSAN
- ANNEX 14: Bank Lending for Urban Development
- ANNEX 15: Economic Evaluation
- ANNEX 16: Selected Documents on Project File
- MAP: IBRD 21579 - Municipal Development Project in the State of Rio Grande do Sul

BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL

LOAN AND PROJECT SUMMARY

Borrower: The State of Rio Grande do Sul (RS)

Guarantor: Federative Republic of Brazil

Executing Agency: The State Development Bank of Rio Grande do Sul (BADESUL);

Amount: US\$100 million equivalent.

Terms: Repayment in 15 years, including five years of grace, with interest at the Bank's standard variable rate.

Relending Terms: The Borrower would on-lend about \$92 million of the proceeds of the Bank loan plus 73% of its own state counterpart contribution, to the sub-borrowers through its Urban Development Fund (FUNDOPIMES) operated by BADESUL. FUNDOPIMES would provide sub-loans for terms of 5, 10 and 15 years including one year grace with variable real interest at least three percentage points above the cost of borrowing to help cover exchange risks and pay administrative fees. Credit risks are minimal since municipalities would offer their ICMS (value added tax) entitlement as collateral for the sub-loans, and CORSAN and autonomous water companies, their revenue entitlement.

Beneficiaries: Sub-borrowers (municipalities, CORSAN and MWCs) which meet pre-agreed selection criteria would become eligible to take sub-loans after preparing an investment plan and Financial Action Plan (PGAF) that demonstrates their ability to finance and sustain the investments. Sub-projects proposed would also meet pre-agreed criteria.

Project Objectives and Description

The project aims to improve the capacity of municipalities to effectively assume their increased responsibilities under Brazil's new Constitution by enabling them to efficiently utilize their significantly increased fiscal resources. The specific objectives are to: (a) increase the ability of municipalities to plan, finance and execute cost effective projects and programs through full cost recovery at the local level and through appropriate policy reforms; (b) improve the coordination of urban development policy and investment decisions at the state and municipal levels; (c) improve targeting of these program benefits towards the poor.

The project will support a state-wide program (PIMES) in Rio Grande do Sul which will include: (a) Institutional and Human Resource Development consisting of technical

assistance, training, and equipment, to municipalities to strengthen their financial management and overall administration through improved tax collection, cadastre renewals, financial information systems, investment planning, accounting procedures and preparation of land use plans; and, (b) Infrastructure Investments consisting of street paving and lighting, basic sanitation, drainage, solid waste, community facilities (health posts, day care centers and school building extensions), and other agreed eligible sub-projects, including pilot projects for low income self help house construction. PIMES would have a Board of Directors (CD) responsible for overall policy of the program. Primary management, monitoring, and evaluation of the program and coordination responsibility for technical assistance to the municipalities will rest with BADESUL's special Project Unit who will use specialized consultants as necessary. Responsibility for implementation would rest with the sub-borrowers, supervised by this Project Unit and eventually by BADESUL's regional offices, in accordance with Operation Manuals (OMs), which set forth project policy, selection criteria, principles, procedures, etc, as well as indicators for rigorous performance monitoring by independent agencies.

**Project Benefits:** Improved resource mobilization and allocation by Rio Grande do Sul State and municipalities will ensure the new investments are sustainable, and provide a timely response to new demands on local governments by the recently approved Constitution. At the same time, it will directly contribute towards meeting the macro-economic objectives of increased public sector efficiency and lower deficits. The project's emphasis on targeting investments to the urban poor, through appropriate design standards and locations of investments, will improve their living standards. The weighted average rate of return of quantifiable benefits is estimated to be 19.9%.

**Project Risks:** There are two specific risks: (a) A possible lack of financial capacity of the State and hence the political will to stay the course; and (b) difficulties in coordination, given the large number of participating agencies. The State Government's enthusiasm for the project, its sustained efforts and success in redirecting sector agencies' thinking along the lines of the project objectives, ensures a strong political commitment to the project. Comprehensive OMs acceptable to the State, municipalities and the Bank, detailing institutional roles, and implementing procedures should considerably reduce the risks of a lack of coordination. Technical risks should be limited given the simple nature of the project components and the ability to benefit from experiences acquired in neighboring states.

**Table 1: Project Costs**  
(US\$ million)

<b>MUNICIPAL DEVELOPMENT PROJECT IN THE STATE OF RIO GRANDE DO SUL</b>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Percent of Base Cost</u>
<b>A. INSTITUTIONAL DEVELOPMENT</b>	14.5	4.3	18.8	10.1%
- Technical Assistance	9.2	2.7	11.9	6.4%
- Training	5.3	1.6	6.9	3.7%
<b>B. INFRASTRUCTURE</b>	125.9	42.0	167.9	89.9%
- Municipal Infrastructure	53.3	17.8	71.1	38.1%
- Environmental Health Inf.	66.8	22.3	89.0	47.7%
- Housing Construction Loans	5.9	2.0	7.8	4.2%
<b>BASE COST</b>	140.4	46.3	186.7	100.0%
Physical Contingencies	14.0	4.6	18.7	10.0%
Price Contingencies	16.3	5.4	21.6	11.6%
<b>CONTINGENCIES</b>	30.3	10.0	40.3	21.6%
<b>TOTAL PROJECT COST</b>	170.7	56.3	227.0	

<u>Financing Plan</u>				<u>Percent of Total cost</u>
Proposed IBRD Loan	43.7	56.3	100.0	44.0%
State of Rio Grande do Sul	76.2	0.0	76.2	33.6%
Sub-Borrowers	50.8	0.0	50.8	22.4%
<b>TOTAL:</b>	170.7	56.3	227.0	100.0%

<u>Estimated Disbursement</u>	<u>Bank Fiscal Year</u>					
	1990	1991	1992	1993	1994	1995
Annual	12.6	11.6	16.6	22.6	24.6	12.0
Cumulative	12.6	24.2	40.8	63.4	88.0	100.0

**Economic Rate of Return**

19.9 % (for sub-projects for which IRR can be estimated which together account for 62.1% of total project costs)



## PART I. THE SECTOR

### General Background on Urbanization

1.01 The rate of urban population growth in Brazil was very high throughout the country during the 1970's (4.4% per annum), while urban household growth was even faster (5.6% per annum), having been propelled by large numbers of young people entering prime age groups of family formation. Although this trend has peaked, urban households are still projected to increase by 3.7% per annum over the 1986/95 period to reach a total of 32.7 million by 1995. In that year, Brazil should have almost twice as many urban households as it had in 1980 (see Annex 1). Expanded urban centers of all sizes place increased strain upon the environment as undisposed solid waste and untreated sewerage become vectors of pollution and urban growth forces the agricultural frontier to further encroach on Brazil's few remaining forests in the more urbanized regions of the country. During the 1980's, urban population growth has continued apace as the national economy slowed down; a combination of trends that has led to the addition of large contingents of the urban poor to the populations of all major cities in Brazil, including the richer ones such as São Paulo (See Annex 1). In the State of Rio Grande do Sul itself, the 1970's urbanization trend followed a similar pattern to Brazil's (4.0% p.a. for population and 5.7% p.a. for households), but it is expected to remain at a higher rate than the national average during the coming years. The Brazilian Statistical and Geographical Foundation (FIBGE) projects an annual rate of urban household formation of 4.0% over the 1986-95 period for Rio Grande do Sul, generating a total increase of 0.7 million urban households, or 43% of the entire urban household population of Rio Grande do Sul today, placing great stress upon services in its cities, whose rapid urban growth in earlier periods left them with older and more decaying urban infrastructure than cities elsewhere in Brazil.

1.02 Meeting the growing demand for urban services by these people will be the major sector challenge for the states in the forthcoming decade, a task made more difficult by the dramatic increase in urban poverty in Rio Grande do Sul, particularly during the first years of this decade. In 1985, the proportion of the total population living in families with incomes below the poverty line in the metropolitan region of Porto Alegre, the State's capital city, for example, has been estimated to be 22.5% (See Annex 1). Urban poverty measured by this indicator was nearly two and a half times greater in 1985 than in 1981 in that metropolitan region. In absolute terms, 410,000 people were added to the urban poor of the metropolitan region of Porto Alegre (the capital city of the state of Rio Grande do Sul) in a period of only four years. For the State as a whole in 1986, 0.8 million urban households (51.8% of the total) had incomes of five minimum salaries or less; of these 0.3 million (18.5% of total) had two salaries or less (details in Annex 1). Brazil's current economic crisis has exacerbated these trends of urban impoverishment.

1.03 Environmental degradation is also increasing in Rio Grande do Sul with the growing deficits of basic urban infrastructure and services, with the urban poor being the principal sufferers. Of total urban households, 27.1% had only rudimentary sanitary facilities or none whatsoever in 1984: a deficit affecting more than 0.4 million dwelling units. For the State of Rio Grande do Sul, 21.5% of urban households burned, buried simply discarded their garbage in vacant lots

or into drainage systems. Environmental aspects are also disregarded in the disposing of hospital and other hazardous wastes that need to be separated from regular domestic garbage. Industrial waste from leather tanning and related industries has severely polluted the Rio dos Sinos Basin for example, where a number of municipalities extract raw water for treatment. Thus, even for water supply, where the efforts of the public sector have been greatest, more than 179,000 urban households (11.9% of the total) had no piped water to their dwellings and had to draw water from public standpipes, wells or rivers. The urban poor (particularly women), are the populations most affected by deficits in sanitation, shelter, day-care centers and basic health and education. They will be targeted by the proposed project, through low-cost design standards of sub-projects (which are at the same time unattractive to higher income groups), and being located in low-income areas of the municipalities served.

#### Government Structure and Provision of Urban Services

1.04 Municipalities in Brazil have long been responsible for planning and administering the urban development of their areas, but have not been able to fulfill that responsibility effectively as political power and resources became centralized (particularly in the federal government) during the period of military dictatorship from 1964. The watershed for municipalities came in 1985 with the first elections held in key cities where mayors had been appointed by state governors (who in turn had been appointed rather than elected prior to 1983). The most recent municipal elections in November, 1988 were hotly contested, with unprecedented elector awareness of national and local issues, and brought to power a new generation of mayors with direct accountability to their constituents for, among other things, the provision and maintenance of urban services in their localities.

1.05 The promulgation of the new Constitution on October 5, 1988 marks another watershed for municipalities, which gained considerable new powers and responsibilities. Under Article 30 of that Constitution, municipalities are now required, for example, to prepare urban plans and provide local services. Municipalities now find themselves shouldering constitutional responsibility for the provision of such services as basic sanitation, water supply, primary and secondary education and health care, which they may either operate themselves or delegate to higher level of government (as they did for water and sewerage under the National Sanitation Plan, or PLANASA, for example). At the same time, however, they will have much greater resources to finance these services through increased direct taxation and greater revenue sharing (details in Annex 2). A key question is whether municipalities will have sufficient institutional capacity to cope with their new responsibilities, and to efficiently allocate dramatically increased resources after more than 20 years of neglect. The first year of this new system and a new crop of mayors provide a particularly opportune time to implement measures designed to strengthen municipal administration.

1.06 Municipalities rely heavily upon state administrations and the latter's sectoral agencies for guidance and assistance in carrying out some of their responsibilities. In Rio Grande do Sul, for example, a number of state agencies have helped support municipalities: BADESUL, the state development bank, finances development and infrastructure projects in municipalities; some technical assistance for municipal planning and management is provided by the state Secretariat of Planning (SCP-RS) and the Human Resource Development Found-

ation (FDRH); the State Secretariat of Public Works (SDO-RS) has helped implementation of infrastructure projects in municipalities; CORSAN, the state water company with six municipal water companies (MWCs) is responsible for the provision of water supply and sanitation. Other state secretariats are responsible for policy and program implementation for education, health, social services, highway construction and maintenance. Specialized agencies within these secretariats, provide a supporting institutional framework for municipal governments.

#### Public Sector Financing and Intergovernmental Fiscal Relations

1.07 The tax reform of the new Constitution thus reestablished fiscal federalism in Brazil by both increasing the sharing of Federal revenues with the states and municipalities and also enhancing the latter's own taxing powers. While total revenues of states will rise significantly, those of the municipalities themselves will increase even more (see Annex 2). Gains in municipal revenues are expected to arise from the increased share in and the expanded base of the state value added tax (ICMS), greater shares in existing taxes (such as federal income tax and industrial product tax) and the full share of the new retail tax on fuels and income tax on unearned income. Municipal revenues in 1989 as a whole are expected to be 30% higher in 1989 than 1985, giving rise to an absolute increase in excess of US\$1.7 billion for all municipalities in Brazil, equivalent to about 0.5% of GDP.

1.08 Due to the formula used in revenue sharing and the impact of the municipalities' economic base on their new taxing powers, the impact of the fiscal reform will vary greatly among municipalities, with gains in total current revenues ranging from 20% to 45% (with an average gain in real terms of 30%). In general, the total increase in municipalities' current revenues from the fiscal reform is inversely proportional to population size. Smaller municipalities with industrial bases have higher increases (sometimes exceeding 40%) and larger municipalities receiving smaller relative increases ranging from 30% upwards. Municipalities that make up the large dormitory suburbs of large cities (where many of Brazil's urban poor live) will probably not gain as much as others under the reform, due to their large populations and limited economic base. Nevertheless, a new tax code to regulate the new system, which must be adopted this year, may well resolve this problem by revising the weights used in revenue sharing, thereby offsetting their disadvantage.

1.09 For the State of Rio Grande do Sul, simulations indicate a 7.5% increase in own tax revenues over the 1985/93 period and a 39.4% increase in income from shared revenue, giving a 10.9% increase in real terms of total revenue. Increases in own tax revenues will take effect immediately, while those derived from revenue sharing will be phased over a four year period until fully deployed in 1993. On the other hand, federal participation in municipal and state spending through earmarked grants has been cut back sharply as municipalities assume greater direct responsibilities for services and also to compensate for greater revenue sharing with the states and municipalities. In part, this served in the effort to contain the federal public sector deficit. In this respect, the federal government has proposed cuts of over US\$5 billion starting for fiscal year 1989, which have still to be approved by Congress.

1.10 The municipalities of Rio Grande do Sul, in the past, had relatively little access to credit and consequently they now have low debts and debt

service. The availability of grants from the federal government also reduced their propensity to borrow. They paid on average only 2.2% of their total revenues on debt service (both interest and amortization) in 1987. Thus, the capacity of the municipalities to borrow is considerable when taking into account current revenues. It will be increased considerably as the new Constitution's tax reforms take effect (see: Annex 2).

### Public Sector Administration

1.11 Municipal administration in Brazil reflects many of the problems associated with the public sector in general, but only more so. With a few exceptions, municipalities are considered to be over-staffed and their personnel poorly paid, with no incentives for efficiency or productivity. In a typical municipality, each change in administration (every four years) is estimated to lead to a turnover (usually to other municipalities or to state or federal governments) of at least 15% of total personnel, often the better qualified. The absence of qualified technical and administrative staff and inadequate access to training and technical assistance, result in reduced mobilization of resources at the local level, slow implementation of projects and overall inefficiency in the provision, operation and maintenance of basic municipal services. Many smaller municipalities lack adequate financial information systems, and a large number suffer from outdated property and other tax cadastres, thus making the modernization of the administrative machinery an important priority. The responsibilities and resources under the new Constitution will improve the political climate for addressing these issues over the long term.

### Sector Development Issues and Objectives

1.12 The ability to formulate urban policy, and to devise and finance national programs, was seriously curtailed when the Federal Government, forced to reduce the fiscal deficit, drastically cut back many of its programs and reorganized its administrative structure. Federal level policy-making for a number of important urban functions was dealt a final blow by the abolition of the Ministry of Housing and Social Development (formerly Ministry of Urban Development) as part of the "Summer Plan" emergency anti-inflation measures taken on January 15, 1989. Thus, at the time of writing, the only entity with explicit responsibility for urban policy as a whole, the National Urban Development Commission, is now under the auspices of the Ministry of the Interior. The Brazilian Urban Transport Company (EBTU), was transferred to the Ministry of Transport (then abolished, but has since been restored by the Brazilian Congress), and water supply and sanitation matters now rest with the Ministry of Health. At the same time, responsibility for financing these programs remains with the Federal Economic Fund (CEF), which was at the time of writing subordinated to the Ministry of Finance. Thus was aborted the long effort to bring a more integrated approach to urban policy and implementation in Brazil, and are founded new concerns for the possible total loss of the institutional memory and experience in the sector, in a nation with the largest urban population in Latin America!

1.13 Because of the recent changes in federal responsibilities noted above, as well as constant institutional shifts, it has proved difficult to obtain a consolidated estimate of expenditures in the sector, as these normally are made at the national, state and municipal level. As macro-economic issues related

to the external debt and inflation have received greater attention, dialogue on sector policy is also in a state of hiatus in the absence of an interlocutor on the federal side. On the other hand discussions have become more direct and relevant at the State level where the pressure on rapid urban growth has been most felt. The main issues and priorities remain unchanged and daily become more urgent: (a) to develop and implement a coherent and sustainable "core" program to improve overall urban sector policies in an integrated approach, focused on the municipality as the primary agent for urban development; (b) to continue to address sectoral constraints in (i) basic sanitation; (ii) low-income housing, and (iii) urban transportation; and (c) deal with serious environmental problems.

#### Bank Lending for Urban Development

1.14 The Bank has made 13 loans totalling US\$1.2 billion to Brazil for urban development and transport projects since 1978 and another 12 for a further US\$1.1 billion for basic sanitation projects since 1971. Of these, 5 loans primarily in the Northeast (63%) for a total of US\$326 million, have focused on municipal development (see Annex 14). These show a declining dependence on Federal Government participation, a gradual reduction in grants, an increase in the participation by municipalities from their own funds, as well as an increase in municipal willingness to borrow. Three experimental integrated metropolitan area projects experienced initial problems in coordinating components of housing, squatter upgrading, low-cost infrastructure, drainage and solid waste, but rapidly made significant institutional strides. Bank lending in the sanitation sector has sought to strengthen PLANASA and the national and state institutions which finance investments in water supply and sewerage treatment and disposal. Four transportation sector loans have focused on improving overall management and coordination of the sector and metropolitan transit systems in particular.

1.15 To date, only two projects have been audited by OED. The first was the audit of the Urban Transport I Project (Loan 1563-BR), a project appraised in 1971, which drew attention to the need for greater flexibility to allow changes in the project during implementation. The second, the audit of the Sites and Services and Low Cost Housing Project (Loan 1654-BR) pointed out the threat to project success from the Bank dealing with an unwilling borrower, the National Housing Bank (BNH) and weak executing agencies, the State Low Income Housing Companies (COHABs). The key lessons brought out in the audits have been incorporated into the current project design. Sub-borrowers' willingness to participate will be assured by their entering voluntarily into sub-loan agreements within the project. Institutional strengthening, aimed at overcoming the weakness of the COHABs' experience is a cornerstone of the current project. Findings of the PCRs for the Medium Sized Cities Project (Loan 1720-BR) and the North-East Metropolitan Project (Loan 2193-BR) also have reinforced the conceptual evolution embodied in the proposed project, especially with respect to the need for coordination and institutional strengthening at the local level. Important lessons have been learned from the Paraná Market Towns Improvement Project-PRAM (Loan 2343-BR), recently completed, and the Santa Catarina Small Towns Development Project (Loan 2623-BR), currently under implementation. This experience reaffirms the need to strengthen the financial mechanisms of project implementation and provide performance incentives to municipalities responsible for project execution. In addition to demonstrating the feasibility of devel-

ving investment decisions to the municipal level, the PRAM Project highlighted the need for a revolving fund to finance ongoing investments, and for more thorough financial monitoring of participating municipalities. This lesson was also incorporated into the Municipal Development Project in the State of Paraná (PEDU - Ln 3100-BR) that was prepared jointly with the present one.

1.16 The decentralization of functions to state and municipal governments in the new Constitution reinforces the need for a more coordinated approach to multi-dimensional urban problems, as well as the need to increase the capacity of sub-national governments to address the problems of the poor. On the whole, Bank lending and policy dialogue so far, have been more effective in addressing the need for clear overall policy, than in promoting efficiency and fiscal responsibility in programming and budgeting at the sub-national level. The Bank's own reorganization will now also permit a more coherent approach in its lending program and provide opportunities to improve coordination between urban and other infrastructure projects.

#### Current Strategy

1.17 Based on past experience, the main objectives in current strategy for lending for urban development are to:

- (a) increase the mobilization of local resources;
- (b) improve the efficiency of resource allocation through enhanced coordination, fiscal policy, financial management and project evaluation;
- (c) strengthen the institutions dealing with rapid urbanization;
- (d) improve targeting of benefits on low-income populations;
- (e) contribute to reducing fiscal deficits at the local level through (a) and (b); and
- (f) support the government's priority for controlling environmental degradation.

The socio-economic and political realities of Brazil today, under the constraint of excessive internal and external indebtedness, reinforce the appropriateness of this strategy. The decentralization mandated by the Constitution underscores the importance of the effort to strengthen sub-national governments, particularly municipal administrations. Because of the many problems facing local governments at this time and the demands for Bank support in the sector, a selective approach has been adopted, to allow for the sharp disparities between states in institutional capacity, managerial skills, locally generated financial resources and the general level of services. By building on the framework already established and gradually broadening the coverage of such programs as experience is gained, the Bank can rapidly develop a sustainable program of support for the federal and state governments' own efforts in this regard. The Bank has previously employed this "process" orientation successfully in Brazil and elsewhere for strengthening institutional capacities of development agencies.

#### Rationale for Bank Involvement

1.18 The Bank's assistance strategy to Brazil is to support policies and investments that will encourage economic growth and social development in a context of macroeconomic stability, with an emphasis on efficient resource allocation and administration in the public sector, and appropriate targeting

and delivery of support systems to the poor. The proposed project is fully consistent with these longer term development goals, and is in keeping with its strategy outlined above, by (a) utilizing the experience and momentum generated by the PRAM Project; (b) improving project design with on-going experience from other similar projects (e.g. the Santa Catarina Project - Loan 2623-BR); and (c) transferring this experience. The State of Paraná was the first borrower for this new generation of projects. The State of Rio Grande do Sul is the second client. This strategy has already resulted in a rapid transfer of knowledge and experience in project preparation and even in negotiations with the Bank, thereby accelerating institutional development. At the same time, these projects also provide an institutional memory for the sector in Brazil (see paras. 1.12-1.13), for both the Government and the Bank.

1.19 The Bank's support is particularly crucial at this time, as cut-backs in Federal programs adversely impact on sectoral programs in the provision of shelter, basic sanitation and other municipal services. These programs will increasingly be implemented by sub-national governments, making it important to introduce re-distributive policies and strategies at this level now, to correct the tendency to subsidize higher income groups noted in Bank studies.

## PART II. THE PROJECT

2.01 The proposed project was first identified in October 1987 following a request to the Bank for a review of draft project documents by federal sector agencies. The original proposals from the State of Rio Grande do Sul initially consisted of an investment program heavily dependent upon grant financing, and aimed exclusively at the construction of low income housing and the expansion of social services. Following a request from federal authorities in mid-1988, preparation missions assisted in the reorientation of the project scope until pre-appraisal in December 1988. The project was appraised in Feb/March 1989.

### Project Objectives and Description

2.02 The main objective of this project is to strengthen the capacity of the municipalities of Rio Grande do Sul to effectively assume their increased responsibilities under Brazil's new Constitution, thereby enabling them to efficiently utilize the dramatic increase in their fiscal resources, and improve their administrative capability after nearly twenty years of relative neglect. The specific objectives are to:

- (a) increase the institutional capacity of municipalities to plan, finance and execute cost effective projects and programs, through appropriate policy reforms;
- (b) improve the coordination of urban development and environmental policy and investment decisions at the state and municipal levels,
- (c) improve the targeting of these program benefits towards the lower income population, and
- (d) strengthen the State's newly created Urban Development Fund (FUNDOPIMES) as a reliable source of financing.

The project objectives would be achieved through the support of a state-wide program in Rio Grande do Sul - "Programa Integrado de Melhoria Social" (PIMES).

2.03 Under PIMES, eligible sub-borrowers, who would be self-selected would have access to sub-loans to finance essential municipal infrastructure and services and related equipment. Eligible sub-borrowers would have to meet agreed limits set by BADESUL on their debt-servicing capacity and criteria for sub-project eligibility, as well as technical design standards, all of which will be set out in detail in a set of Operation Manuals (Annex 8). Agreement was reached at Negotiations on the contents and format of the set of the eight (8) Operation Manuals prepared by BADESUL and the Borrower's compliance therewith. Each sub-borrower would be subjected to a financial and institutional appraisal which would establish its borrowing capacity and also define the minimum content for an institutional development package of institutional strengthening, including technical assistance and training, that the sub-borrower would implement, as a condition for receiving a sub-loan. The sub-borrower would first prepare a Financial Action Plan (PGAF) aimed at making its overall financial management more efficient and also increasing its revenues, and containing its current expenditures, etc. The appraisal of this PGAF by BADESUL would be accompanied by a parallel appraisal of the sub-borrower's institutional capacity, by BADESUL (through the use of consultants), and lead to an agreed program of technical assistance and training in order to successfully implement the sub-borrower's investment program. All sub-borrowers will be required to participate in the Institutional and Human Resource Development component, which is a key element designed to meet the specific objectives of the project. Those sub-borrowers demonstrating to BADESUL a satisfactory performance in meeting their planned targets for increasing revenues for example, would be eligible for further sub-loans to finance investments under the Infrastructure component. The project is thus designed to ensure that each action and step in securing, utilizing, and repaying a sub-loan, also reinforces and consolidates the financial, institutional and poverty-targeting policy objectives of the project. The "a priori" requirement that sub-borrowers demonstrate their improved financial and managerial performance, will stimulate competition for limited funds between sub-borrowers, an essential feature of this project.

2.04 Altogether in the State of Rio Grande do Sul, there are about 333 municipalities, and some six municipal water companies (MWCs), and the state water company (CORSAN). They could eventually all become eligible to participate in the project, but in order to avoid overloading the institutional capacity of BADESUL, and to ensure a sound project start-up during the first year, priority will be given to the water companies and about 80 of the larger municipalities in the state. These municipalities, which include the medium sized cities and larger towns of the State, were chosen for having an adequate institutional capacity to quickly benefit from the project, and would thus serve as examples for the remainder to emulate. Under the proposed loan, policies and conditions (for example on tariffs and operating ratios) for municipal and state water companies will be consistent with those proposed under water sector projects in Brazil.

#### Project Components

2.05 There are two principal components:

(a) Institutional and Human Resource Development. (details in Annex 3.1) The objectives for this component are to rectify present constraints and actively support the decentralization program, through strengthening the institutional



framework and the development of human resources. It would include technical assistance, training and equipment to: (a) municipalities to strengthen their financial management and overall administration; (b) to BADESUL, to improve its institutional capacity for project management and supporting role functions, such as the appraisal of sub-borrowers and sub-projects and that of selected sector agencies (CORSAN, DAEB, DAE, DHR, DMAE, SAMAE, SANEP, SEMAE, amongst others); and (c) to training and technical assistance agencies and programs (principally FDRH) for strengthening their capacity and qualitative improvements. The Training and technical assistance would focus on knowledge enhancement and specific practical skills training in such areas as programing and budgeting, preparation of PGAFs, project formulation, economic evaluation and project appraisal, improving cadastres, public accounting, inventory control, pricing of services, municipal legislation, labor law, procurement, operation and maintenance of technical services. It is estimated that this component would represent about 10.1% (US\$18.8 million) of the base cost of PIMES, of which US\$ 11.3 (6.1%) would be the cost of technical assistance, and US\$ 7.5 million (4.0%) of training. The project would finance the cost of courses, travel and subsistence, and teaching materials, equipment and studies. No civil works construction is to be financed under this component.

(b) Infrastructure Investments. (details in Annexes 3.2-3.5) This component represents about 89.9% (US\$167.4 million) of the total base cost. Infrastructure investments would include water supply and basic sanitation, street paving and lighting, drainage, solid waste management, community facilities (health posts, day-care centers and school building extensions), and other eligible special sub-projects including water pollution control of the Rio dos Sinos Basin, and pilot projects for low income self-help house construction. In connection with the latter, agreement to specific conditions was reached at Negotiations (see Annex 3-3), including that: (a) a special "task force" would be set up in the Secretaria de Trabalho e Ação Social (STASC-RS) as a Condition of Effectiveness; and (b) that prior to December 31, 1990, BADESUL will have completed an in-depth management study, under terms of reference satisfactory to the Bank, of the organizational, financial, administrative and policy aspects of the COHAB-RS with a view to expanding delivery of a program of appropriate and affordable shelter for the poor.

#### Selection Criteria

2.06 The main conditions for receiving sub-loans by each sub-borrower under PIMES would be: (a) a demonstrated financial capacity to service the proposed debt, and an institutional capacity to execute its investment program; (b) the acceptance of the financial terms and conditions as specified in their respective sub-loan agreements with BADESUL, and (c) agreement to comply with the guidelines and procedures, including procurement, accounting, monitoring, reporting, etc. set out in the Operation Manuals of PIMES (see: Annexes 4 and 8 for details). Agreement also reached at Negotiations on the eligibility criteria for Participants and Sub-borrowers (Annex 4); for selection of beneficiaries of housing loans (Annex 3.3); and for the selection of Sub-projects (Annex 5).

#### Project Costs

2.07 The total project cost is estimated at US\$227 million equivalent, including base costs, contingencies and taxes. The proposed Bank loan of US\$100

million to the State of Rio Grande do Sul would represent about 44% of total project cost. The foreign exchange component is estimated at US\$56.2 million equivalent. A summary of project cost by main component is presented in Table 1, and details are given in Annex 6.

2.08 Project costs estimates were based upon unit costs recently incurred on similar sub-projects during the implementation of the PRAM Project. Final engineering designs and preliminary drawings have been used in the majority of cases to determine costs of typical sub-projects. Unit costs for training (cost/participant/day) have been estimated on the basis of ongoing programs and have been averaged out from aggregated costs/day/event. To take account of possible variations from design quantities during implementation, physical contingencies of between 5% and 15% of base costs have been included. Current estimates put physical contingencies at about 10.0% of total project base costs. Price contingencies, estimated at 5.3% in 1990 and 4.1% in each of the years 1991-94 (OPN 3.11/October 1988), amount to 11.6% of base costs.

2.09 Thus far in project preparation, US dollars have been used to express costs because of the difficulties in interpreting the real value of nominal cruzado amounts with monthly inflation having reached nearly 30%. Although uncertainty exists concerning the stability of the currency with respect to inflation at least in the short run, state and municipal authorities of Rio Grande do Sul have in the past become familiar with the effect of inflation upon their finances and have coped successfully with this. However, should further devaluations occur during project execution, there is a risk of under-funding and slower disbursement of the Bank loan. This risk will be mitigated by the greater allocation of cruzado amounts of counterpart funds.

#### Financing Plan

2.10 The Bank loan of approximately \$100 million to the State of Rio Grande do Sul would be used to finance a 100% of foreign exchange costs, and local costs up to about 44% of the total project costs. The State's credit-worthiness to take the loan was evaluated by the Federal Government as guarantor. Taxes, estimated at 9.8% of total project costs, will not be eligible for reimbursement. Counterpart funding from the state budget will provide for 33.6% of total project costs, while the sub-borrowers' own budget counterpart will finance 22.4% of the total costs which include taxes (see Table 2). Agreement was reached that the Borrower would by December 31, 1990 contribute at least the equivalent of US\$21,000,000 to FUNDOFIMES, on terms and conditions satisfactory to the Bank.

2.11 About 92% of the Bank loan (US\$92.1 million) together with 71% of state counterpart funding (US\$53.8 million) would be on-lent to the eligible sub-borrowers under terms and conditions specified in Annex 10. The balance of the Bank loan of US\$7.9 million will provide 50% co-financing with the state for institutional development sub-projects which will be passed on substantially as grants to eligible municipalities. In addition, the state would provide grants totalling approximately 8.6% (US\$14.5 million) of the infrastructure component. These grants (see para. 4.04) will be targeted to Technical Assistance, community facilities and special environmental sub-projects.

Table 2: PROJECT FINANCING PLAN  
(US\$ million)

<u>Financing Sources</u>	<u>Bank Fiscal Year</u>							<u>Z</u>
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>Total</u>	
<u>PIMES</u>								
RS State	4.6	12.1	13.9	16.3	21.8	7.5	76.2	33.6Z
RS Municipalities	1.0	8.2	9.4	12.1	14.6	5.5	50.8	22.4Z
World Bank financed	12.6	11.6	16.6	22.6	24.6	12.0	100.0	44.0Z
<b>TOTAL SOURCES</b>	<b>18.2</b>	<b>31.9</b>	<b>39.9</b>	<b>51.0</b>	<b>61.0</b>	<b>25.0</b>	<b>227.0</b>	

### PART III. PROJECT IMPLEMENTATION

#### Institutional Arrangements

3.01 Overall policy and direction of the PIMES Program will be the responsibility of the CD, whose membership would include, among others, the Secretary of State for Coordination and Planning (President) (SCP-RS); and the Secretaries of Interior, Regional Development and Public Works (SDO-RS); and of Labor and Social Actions (STASC-RS). Responsibility for project coordination, supervision of execution and the management of FUNDOPIMES will rest with the Project Unit of BADESUL, created in a reorganization especially undertaken for the PIMES project. BADESUL (Annex 12) has acquired considerable experience in this kind of work, and has already submitted to the Bank drafts of the Operation Manuals for the project (Annex 8). As the execution of the project expands, it is anticipated that some routine administrative functions of BADESUL's Project Unit in Porto Alegre, the State capital, will also be decentralized to parallel the existing 24 regional offices of the SDO-RS, which will be strengthened and consolidated to provide local supervision of construction. Responsibility for project implementation would rest with the sub-borrowers, namely municipalities, MWCs and the state water company, CORSAN. BADESUL will provide the financial services for project implementation, including the management of the accounts held by the project's Urban Development Fund (FUNDOPIMES). Since BADESUL is not authorized to carry depositors' accounts, the account for FUNDOPIMES will be held by a financial agent, the State commercial bank (BANRISUL). The law authorizing the State of Rio Grande do Sul to contract the loan from the Bank also initiated FUNDOPIMES under the authority of BADESUL. Apart from the Urban Development Fund itself, all these institutions are already in place and have had previous experience with this kind of work. BADESUL is the financial intermediary for the state component for Fourth Urban Transport Project (Ln 2822-BR). Little additional staffing is foreseen, so that exaggerated growth of the payroll will be avoided. Agreement was reached at Negotiations on the staffing of BADESUL's Project Unit, which will emphasize the efficient re-deployment of existing staff and the reassignment of staff from other state agencies so as to avoid overall increases of staffing levels. Where necessary, especially in relation to financial appraisals, consulting services will be retained. Because of its more centralized administrative structure, BADESUL's

regional representatives will serve mostly as a clearing house for project documentation, while most of the project processing will be undertaken in the Project Unit in Porto Alegre.

3.02 The specific responsibilities of the agencies responsible for the implementation of PIMES are given in Annex 7, and can be summarized as follows:

(a) SECFAZ-RS/SCP-RS (i) Ensure timely and adequate budgetary provisions are made and that the necessary funds are transferred to FUNDOPIMES.

(b) BADESUL - Headquarters Specifically through the Project Unit and including the other supporting units of BADESUL's organization: (i) monitor in detail the overall performance of the project; (ii) ensure compliance with project objectives, procedures and overall modus operandi laid down in Operation Manuals; (iii) manage and monitor the performance of FUNDOPIMES, including timely requests to SECFAZ-RS for counterpart funding by the state; (iv) appraise the financial and institutional capacity of municipal sub-borrowers, CORSAN and MWCs (through the use of consultants as necessary); (v) evaluate potential sub-borrowers' Financial Action Plans (PGAFs); (vi) technically evaluate proposed sub-projects by potential sub-borrowers; (vii) supervise compliance with procurement procedures; (viii) authorize BANRISUL to disburse sub-loans through FUNDOPIMES after receiving approvals from the CD; (ix) maintain high-level contact with key officials as necessary, to deal with any special problems that may eventually arise; and (x) perform the functions of a technical secretariat for the CD including the execution of responsibilities for all reporting requirements to the Bank.

(b) BADESUL - Regional Offices (as these are established): (i) promote the project among potential sub-borrowers; (ii) receive and carry out a technical review of sub-project proposals from sub-borrowers; (iii) review compliance with procurement procedures; (iv) carry out day to day supervision of progress of civil works; (v) report to and forward documentation to Project Unit on all above. Until such time as the separate regional offices are fully established, the existing 24 regional offices of SDO-RS will be used to accommodate representatives of BADESUL.

(c) BADESUL - FUNDOPIMES - (i) Operation and management of the FUNDOPIMES account held in BANRISUL in accordance with project objectives; (ii) perform other financial services in connection with disbursements and repayments to the World Bank via the Special Account and repayments of the loan; (iii) prepare and execute sub-loan agreements with sub-borrowers; and (iv) execute sanctions through the appropriate financial agent (such as retention of ICMS transfers or water company revenues) in cases of non-compliance with sub-loan agreements.

(d) Sub-borrowers (Municipalities, Autonomous Water Companies and CORSAN) (i) prepare Financial Action Plans (PGAFs) for approval by BADESUL; (ii) prepare sub-projects for approval by BADESUL; and (iii) implement approved sub-projects in accordance with the guidelines.

3.03 The Bank loan would be made to the State of Rio Grande do Sul, with a Guarantee Agreement with the Federal Government. A separate Project Agreement

would be entered into with BADESUL, and with CORSAN (a major sub-borrower). FUNDOPIMES would be operated by BADESUL in accordance with conditions satisfactory to the Bank included in the law authorizing the State Government of Rio Grande do Sul to take the loan from the World Bank. Each eligible sub-borrower would make a sub-loan agreement with BADESUL.

#### Monitoring and Evaluation of Project

3.04 Systematic monitoring of specific and broad ranging indicators that measure the overall performance and impact of the project would be undertaken by BADESUL's Project Unit. Special attention would be given to financial indicators of improvements in municipal finances, notably increased capacity to invest, and increased revenue capacity. Institutional monitoring by BADESUL's Project Unit would examine the implementation of training programs, and, to the extent that they are discernable, the changes in the human resource profile of the municipalities in terms of their needs for qualified personnel, and other training requirements. An important aspect of this project will be to induce change in the way institutions carry out their respective roles and to improve efficiency. For example, indicators will measure the elapsed time for actions in connection with sub-borrower appraisal (paras. 4.05-4.07), and loan administration by BADESUL. It was agreed at Negotiations that BADESUL shall: (a) monitor the economic, financial and fiscal impact of the execution of the Project in accordance with the indicators set out in the Operation Manuals; (b) by October 31 each year, report to, and exchange views with the Bank on the results of the monitoring; (c) also, by October 31 each year, report to, and exchange views with the Bank on: (i) borrowing capacity and credit-worthiness of municipalities, CORSAN, MWCs and other sub-borrowers, (ii) resource allocation, including grants and Sub-loans under PIMES by region, type of municipalities and nature of investments for the current and forthcoming calendar years; (iii) indicators of fiscal, financial and costs recovery performance of the sub-borrowers, and (iv) status of implementation of the Technical Assistance Program; (d) based upon (a) to (c) above, prepare by October 31 each year, an annual investment program for PIMES satisfactory to the Bank and the State, including a global estimate of the sub-projects to be carried out during the ensuing calendar year, and (e) by September 30 each year, exchange views with the Bank on the progress of the housing sub-projects. It was also agreed that BADESUL would, by November 30, 1989, prepare and furnish to the Bank, a set of financial, economic, technical, environmental and social monitoring indicators for the Project and the sub-borrowers.

3.05 Monitoring will be undertaken on a continuous basis. In addition to routine monthly reporting by the eligible sub-borrowers, BADESUL's Project Unit and eventually, its regional offices will undertake random spot checks of the performance of municipalities to verify their eligibility for further financing under the program.

#### Procurement

3.06 Over 300 municipalities are expected to participate in PIMES, so that a large number of contracts of limited size, in scattered locations, will be awarded. Where possible, such as in the case of large scale purchases of materials, contracts will be grouped to gain advantages of economies of scale (See Table 3). The following limits and ranges were agreed: (a) **International Competitive Bidding**: over US\$1,500,000 million for civil works and over

US\$300,000 for goods and equipment; (b) **Local Competitive Bidding**: from US\$50,000 to US\$1,500,000 for civil works and from US\$20,000 to US\$300,000 for goods and equipment; (c) **Local Shopping**: below US\$50,000 civil works, and below US\$20,000 for goods and equipment. For civil works, the values expected to be procured by each method were estimated as follows: ICB - US\$22.0 million; LCB - US\$43.0 million; Local Shopping - US\$29.0 million. For equipment and materials, the values would be: ICB - US\$40.0 million; LCB - US\$25.0 million; Local Shopping - US\$13.0 million. All procurement would be carried out following the World Bank's Guidelines for Procurement of May 1985, and local competitive bidding (including local shopping) procedures would be acceptable to the Bank. In addition to Development Business and the local Diário Oficial, newspapers of wide national circulation in Brazil will be used at the beginning of each year to advertise the types and sizes of contracts to be awarded during the following two years both for ICB and LCB. Goods and equipment subject to reserve procurement (notably micro-computers and vehicles) whose import into Brazil is prohibited, would not be eligible for reimbursement and have not been included in the project cost estimates.

Table 3: PROCUREMENT: ESTIMATED VALUE BY METHOD  
(US\$ million equivalent) 1/

<u>Expenditure category</u>	<u>ICB</u>	<u>LCB</u>	<u>Local Shopping</u>	<u>Other</u>	<u>Total</u>
Civil works	22.0 (9.7)	43.0 (18.9)	29.0 (12.8)	-	94.0 (41.4)
Equipment and materials	40.0 (17.7)	25.0 (11.0)	13.0 (5.7)	-	78.0 (34.4)
Technical asst. and engineering	-	-	-	25.0 (11.0)	25.0 (11.0)
Not applicable	-	-	-	30.0 2/ (13.2)	30.0 (13.2)
<u>Total</u>	62.0 (27.4)	68.0 (29.9)	42.0 (18.5)	55.0 (24.2)	227.0 (100.0)

1/ Figures in parentheses indicate Bank financing

2/ Labor and administration costs carried out under force account.

3.07 Technical assistance and Training (total value US\$25.0 million) would be contracted according to the Bank's Guidelines for the Use of Consultants of August 1981, and related materials would be procured under LCB.

3.08 Given the very large number of small contracts involved, their review and approval would be undertaken by BADESUL, who would keep all documentation for review by the Bank at its request. BADESUL's regional offices would be primarily responsible for this task where contract values do not exceed

\$250,000 for civil works or \$100,000 for materials and equipment. Above that limit, BADESUL's Project Unit would be responsible for LCB and ICB procurement. The Project Unit would also undertake these tasks for non-municipal sub-borrowers. Bank review of bidding documents, awards, and contracts would be carried out for all ICB procurement. The Bank would also exercise prior review, irrespective of the amount, of the first three contracts to be awarded using LCB for goods and works respectively, and would periodically examine a sample of the procurement documents to verify that goods and services had been procured in accordance with the agreed procedures. If, in the review by sampling, the Bank determined that procurement had been inconsistent with agreed procedures, no expenditures for such items would be financed out of that particular Loan, and the Bank would cancel a corresponding amount of the Loan. Auditors responsible for the verification of project accounts would be instructed to examine and report upon the procurement procedures adopted during project execution.

#### Disbursement

3.09 The Bank loan will disburse against 100% of eligible foreign expenditures, 65% with regard to local eligible expenditures made for civil works, equipment and materials, 65% against amounts disbursed for housing loans and against 50% of eligible expenditures for the Institutional Development Component, with a maximum of US\$100 million or 44% of costs. Project expenditures made for land and for the payment of local taxes would not be eligible for disbursement.

3.10 Disbursements under the loan for civil works amounting to less than US\$1.5 million and for goods, equipment and services amounting to less than US\$300,000 would be against certified Statements of Expenditures (SOEs) made under eligible sub-projects. Supporting documentation for these expenditures would be retained by the BADESUL Project Unit and would be inspected periodically by the Bank at its request and be retained for inspection by independent auditors acceptable to the Bank. For works and goods for greater amounts than those mentioned, disbursement would be against full documentation. It is proposed that retroactive financing, amounting to no more than \$5.0 million would be permitted for expenditures made under the Institutional Development component as of March 03, 1989 and for other eligible expenditures, after the Bank has formally approved the respective Operation Manual, and subject to all procurement having been in accordance with Bank guidelines. A preliminary estimated disbursement schedule is given in Table 1. It is expected that the loan would be fully disbursed over a five year period, as against a sector profile of 6.5 years. This is based on the experience of recent urban projects-the Paraná Market Towns Project (Ln 2343-BR) and the Northeast Reconstruction Project (Loan 2645-BR) completed in 5 years and 3 years respectively, on the state of project preparation, and on the experience of BADESUL.

#### Accounts and Audits

3.11 A Special Account would be established in U.S. dollars in the Central Bank of Brazil with an initial deposit of \$7.0 million, equivalent to about four months disbursements against expenditures in local currency. A Project Account would be established in BADESUL and be operated by BADESUL's Project Unit, which would certify statements of expenditures and would make supporting documentation available to Bank supervision missions. Beneficiary

sub-borrowers would be required to maintain detailed project and financial accounts which would be audited annually by independent auditors acceptable to BADESUL and the Bank. The audit reports would be held by BADESUL's Project Unit and an additional copy be made available to the Bank for review. Because of the project's objective of supporting the decentralization of local responsibilities and development functions to the municipalities, additional random spot checks and verifications of the Municipalities' operations would routinely be carried out by BADESUL. Each of the implementing agencies receiving proceeds out of the Bank Loan, would be responsible for keeping separate project accounts. BADESUL would open and maintain an account to operate FUNDOPIMES. These would reflect all project expenditures as well as the debt tables relating to each of the eligible sub-borrowers. The individual project accounts in implementing agencies and of FUNDOPIMES, as well as the Special Account, would be audited annually by independent auditors acceptable to the Bank. The auditor's report on CORSAN would be submitted by BADESUL to the Bank no later five months after the end of the fiscal year, and the consolidated auditor's reports for the remainder, would be forwarded to the Bank no later than six months after the end of the borrower's fiscal year.

### Reporting

3.12 BADESUL would require monthly reports from each of the sub-borrowers and from the agencies responsible for specific components (for example: housing, training etc.), and in turn BADESUL would submit quarterly reports on project implementation to the Bank, within 30 days of the end of each quarter. Agreement was reached at Negotiations that: (a) beginning January 31, 1990, prepare and furnish to the Bank quarterly progress reports on the execution of the Project containing specific information on (i) availability of counterpart funds, (ii) financial performance by Sub-borrowers by region, size and type, and (iii) the status of execution of the institutional development component of the project; and (b) by October 31 of each year, BADESUL would carry out jointly with the Bank a yearly review of: (i) the capacity and credit worthiness of the municipalities, CORSAN, the autonomous water companies and other Eligible Sub-borrowers; (ii) resource allocation, including grants and sub-loans under PIMES by region, type of municipalities, and nature of investments for the current and forthcoming calendar years; (iii) indicators of fiscal, financial and cost recovery performance of the Sub-borrowers; and (iv) the status of the Institutional Development Component. There would also be annual review of monitoring and evaluation activities. BADESUL would also prepare and submit a Project Completion Report within six months of the Closing Date.

### Legal Aspects

3.13 During Negotiations, drafts of the following legal documents were reviewed. Revised drafts are being prepared and will be sent to the Bank prior to Loan Signing.

- a) Minuta de Convênio entre o Governo do Estado e o BADESUL para a administração técnica e financeira do FUNDOPIMES (draft agreement for the technical and financial management of FUNDOPIMES);
- b) Minuta de Convênio entre o Governo do Estado e o Banco do Estado do Rio Grande do Sul - BANRISUL - para execução do PIMES (draft agreement with BANRISUL on implementation of PIMES);



- c) Minuta de Convênio entre o Governo do Estado e Município para Implementação do PIMES (draft agreement with municipality for implementation of PIMES);
- d) Minuta de Convênio entre o Governo do Estado e Companhias de Saneamento (draft agreement with water companies);
- e) Minuta de Contrato de Sub-empréstimo entre o Governo do Estado e Municípios através do BADESUL (draft sub-loan agreement with municipalities through BADESUL);
- f) Minuta de Contrato de Sub-empréstimo entre o Governo do Estado, através do BADESUL e Companhias de Saneamento (draft sub-loan agreement with water companies through BADESUL);
- g) Minuta de Contrato de Repasse de Recursos do FUNDOPIMES entre o Estado do Rio Grande do Sul, através do BADESUL, Municípios ou eventualmente, entidades não governamentais (draft contract of FUNDOPIMES resource transfer between the State and Municipalities and, eventually, NGOs, through BADESUL)
- h) Minuta de Projeto de Lei autorizando o Poder Executivo Municipal a contratar Operação de Crédito com o Banco de Desenvolvimento do Estado - BADESUL - através do FUNDOPIMES (draft law authorizing Municipality to borrow from BADESUL).

Additionally to be sent by Loan Signing, are drafts of; (a) the Technical Cooperation Agreement between BADESUL and specialized agencies, and (b) the Housing Agency Agreement between BADESUL and BANRISUL or other financial agent.

#### PART IV. FINANCIAL ASPECTS

##### Urban Development Fund - FUNDOPIMES

4.01 A key distinguishing feature of this project built upon the experience of previous operations, is the emphasis upon the use of a newly created Urban Development Fund (FUNDOPIMES) in Rio Grande do Sul, which will be able to provide municipalities and other state agencies with an annual source of investment funds. In addition to the proceeds of the Bank loan, there are two other sources of capital for the fund: (i) the state government's capital contribution over the disbursement period, and (ii) the amortization of principal and interest payments of the sub-loans (the latter include a three-point spread over FUNDOPIMES' cost of borrowing). Financial projections indicate that capital from these two sources during the disbursement period is sufficient to provide a significant annual investment program after the Bank loan has been disbursed (details of FUNDOPIMES are in Annex 10).

4.02 As agreed, FUNDOPIMES was legally constituted before Negotiations under the Law (No. 8.899 of August 4, 1989) that specifically authorized the state Government to take the loan from the Bank. Eligible sub-borrowers would

be entitled to sub-loan financing from FUNDOPIMES<sup>2</sup> in according with the conditions and procedures established by the FUNDOPIMES Operation Manual (see Annex 8). BADESUL will be ultimately responsible for approving the eligibility of sub-borrowers to take sub-loans. BANRISUL, the State commercial bank, would operate FUNDOPIMES accounts through a Financial Agency Agreement with BADESUL, since BADESUL itself is not entitled to collect deposits. General operating principles of FUNDOPIMES include: (a) state counterpart funds will be a permanent capital contribution to FUNDOPIMES; (b) sub-loans will carry terms of terms of 5, 10 and 15 years including one year of grace in each case; (c) FUNDOPIMES lending will be at a rate of at least three percentage points above the cost of borrowed funds; (d) all repayments to FUNDOPIMES during the disbursement of the Bank loan will be redeployed in the PIMES project; and (e) all sub-loans will be guaranteed by BANRISUL's holdings of sub-borrowers' entitlement to merchandise circulation (value added) tax (ICMS) transfers and user fees - a practice successfully employed by the State in similar cases of collateral requirements from municipalities, and elsewhere in other on-going Bank-financed urban projects, with a zero default rate. Agreement was reached at Negotiations on the operating principles of FUNDOPIMES, namely; (a) terms of 5, 10 and 15 years including one year of grace with variable real interest at least 3% above the cost of borrowing (details in Annex 10); (b) the participation of Financial Agents (and the execution of Financial Agency and Housing Agency Agreements); and on an annual (by October 31) exchange of views with the Bank on the adequacy of the financial terms of the Sub-loans, the prevailing rates for similar loans, the rates of inflation, and the Borrower's cost of funds.

#### Policies on Cost Recovery, Grants and Subsidies

4.03 Under PIMES, about 92% of Bank loan proceeds and 71% of the State Government's counterpart funds, which will be on lent as sub-loans via FUNDOPIMES, will be fully recovered from the sub-borrowers. Sub-borrowers, in turn, recover costs from end-users and other beneficiaries. The overall policy for cost recovery criteria would be included in the Operations Manuals for PIMES. In principle, for non-revenue-earning investments such as paving, drainage, and street lighting, capital and operating costs will be recovered through direct betterment charges to the beneficiaries, and/or indirectly recovered through general incremental property tax, depending upon the particular circumstances of the municipality concerned (to be determined through an evaluation of its Financial Action Plan - PGAF). Revenue-earning services whose capital and operating costs can be accounted for (water supply, sewerage, and solid waste services), will be fully recovered through user charges (tariffs). CORSAN and MWC sub-borrowers would be required to comply with the National Tariff Law during the project period.<sup>1</sup> In addition, as solid waste costs are seldom separately accounted for in Brazil, sub-borrowers would be required introduce separate cost-accounting for solid waste services, to enable their eventual conversion to user charges. Revenue-earning facilities (markets,

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<sup>1</sup>. The National Tariff Law (1978) requires that all State water companies under the PLANASA system recover, through operating revenues, all operating costs, depreciation charges and debt service costs, subject to a maximum annual remuneration of 12% on assets.

slaughter houses, transport terminals, regional sanitary land-fill sites, incinerators, toxic waste treatment and the Rio dos Sinos Basin Environmental Control Sub-project) would be subject to full cost recovery directly, through recourse to market-value rents, user charges and fees. Community facilities (child-care centers, health centers and school extensions) would not be subject to cost recovery, as is current customary practice in Brazil. However, studies are in progress to ascertain the potential recovery of some recurrent costs for the health and child care centers. 100% of each Housing loan would be directly recovered for the purchase of building materials or loans for the construction of core housing (sites and services).

#### Grants and Subsidies

4.04 In addition to partial grants for the community facilities noted above, and for selected technical assistance and training, partial grants may also be made for specific investments having a high positive environmental impact, such as the Rio dos Sinos Basin water pollution control, or regional solid and toxic waste disposal sub-projects. In these cases, such grants would be conditioned on full cost recovery through user charges to beneficiaries of the non-grant element. Partial grants would also be available for selected technical assistance sub-projects with short-term financial gains for the municipality (such as indexing taxation revenues). The municipalities, in these cases, would share 25% of the costs (details in Annex 11). Agreement was reached at Negotiations on allocation criteria for grants that are not to exceed 15% of the total amount for Sub-loans in any one year (see Annex 5). In cases where subsidies are necessary to ensure affordability by lower income beneficiaries, user charges (e.g. water/sewerage tariffs) will be calculated to ensure differential pricing of services with internal cross subsidies.

#### Appraisal of Sub-Borrowers

4.05 Appraisal of sub-borrowers is intended to be a two-pronged process. On one side, each sub-borrower would: (a) sign a participation agreement with BADESUL, confirming its intention to participate in the program; (b) prepare and submit (with technical assistance, if required) a detailed Global Financial Action Plan (PGAF) which would include a diagnosis of its financial position (with supporting data), and identify the key areas in which financial and administrative improvements will be undertaken; (c) undergo an institutional appraisal, by BADESUL's Project Unit (through the use of consultants as necessary), who would then agree the scope of the institutional package, and recommend a credit limit for the respective borrower.

4.06 On the other side, the sub-borrower would also: (a) submit an Investment Plan (having demonstrated through its Financial Action Plan, its ability to finance and sustain the investments to be made, especially in the case of community facilities where recurrent personnel and other operating costs can be considerable); (b) enter into a Sub-Loan Agreement with BADESUL (as operator of FUNDOFIMES) under which its participation in project financing is regulated. This process is an important innovation and should reflect considerable savings in expenditures normally incurred in the preparation of unaffordable or unsustainable investment plans (wish-lists).

4.07 In the case of CORSAN, the largest single sub-borrower, and of DMAE, the financial and institutional appraisal has already been undertaken by the

Bank (thus the above-mentioned process is not applicable). BADESUL would undertake the appraisal of the MWCs that would be satisfactory to the Bank. CORSAN's sub-projects under PIMES would include mainly investments for connection of consumers in pockets of surplus capacity, in both water supply and sewerage treatment, with not more than about 20% of the total sub-project investments allocated for water production. Total investments in the sub-sector represent less than 20% of CORSAN's projected investment program for the period. Similar to most Brazilian state water companies during the period 1985-87, CORSAN's financial position was very weak due to tariff erosion in real terms. However, as shown in the summary financial statements in Annex 13, tariffs recovered during 1988 (increasing approximately 100% in real terms), so that CORSAN is now in compliance with the minimum requirements of the National Tariff Law (NTL), the legislation which regulates water sector finances. During Negotiations, assurances were obtained that: (i) during implementation, there would be compliance with the National Tariff Law, for CORSAN, and with the following requirements for the MWC's: that operational receipts cover the total cost of operations, any depreciation charges and all debt service costs (interest and amortization). Revenues should also generate sufficient internal cash as required for counterpart funds in the financing plan for both CORSAN and the MWC's; and that CORSAN and the MWC's take any required administrative and legal actions by December 31, of each year to adjust all accounts receivable for inflation; (ii) that CORSAN maintain a debt/equity ratio no greater than 65:35 for FY 1990, and 60:40 thereafter; (iii) that CORSAN's debt service coverage not fall below 1.5; (iv) that CORSAN (by June 30 1990) and the MWC's (by September 30, 1990) complete marginal cost pricing studies, and implement marginal cost pricing within 12 months of completion of the studies; (v) on an agreed schedule for each company to complete a study of its asset value (not later than 15 months from Date of Loan Effectiveness for CORSAN and by December 31, 1990 for other companies), based on current market costs and realistic depreciation charges, and the subsequent incorporation of any required asset value and accounting procedure changes deemed necessary by such studies starting December 31, 1991, and to carry out revaluation updates on a triennial basis; (vi) on submission to the Bank, not later than January 31, 1990 for CORSAN, and within 30 days of its first Sub-loan Agreement, thereafter October 31 of each year (including 1990), a general financial projection for the following five-year period, including specific details on investment plans for the upcoming year; departures of more than 10% of the investment targets proposed are to be agreed in consultation with BADESUL and the Bank (para. 4.07). The agreements with CORSAN and the autonomous water companies reflect the policies and agreements reached under other water sector operations financed by the Bank.

#### Appraisal of Sub-Projects

4.08 Sub-projects will be prepared at the municipal level and reviewed and appraised in the first instance at BADESUL's Project Unit and then, as Rio Grande do Sul's decentralization program gets under way, at regional offices. The appraisals will be in accordance with financial, technical, economic and institutional criteria, set out in the Operation Manuals, which will have been reviewed and found to be acceptable to the Bank. Past experience confirms that the majority of sub-projects are simple and small in size and, in many cases, are based on prototype plans adapted to local conditions. Previous Bank experience with this type of component has demonstrated that few technical difficulties are likely to be encountered. Water sector sub-projects undertaken

by CORSAN and the autonomous companies would be chosen on the basis of the selection criteria currently in use in projects financed by CEF (see Annex 3.2).

## PART V. PROJECT JUSTIFICATION AND RISKS

### Demand for FUNDOPIMES Funding

5.01 From past experience of the PRAM Project (Loan 2343-BR) and the Santa Catarina Small Towns Development Project (Loan 2623-BR), where on-lending terms are similar to those proposed under PIMES, the demand for funds through FUNDOPIMES can be expected to be buoyant, especially considering the absence of competing sources of funds as former subsidized lines of credit and grants have dried up. Furthermore, the use of well tested cost effective solutions as in the case of those projects will ensure affordability by the targeted low income beneficiaries.

### Financial Impact

5.02 An analysis of municipal indebtedness in the state (details in Annex 2) demonstrates a very large capacity for borrowing. Typically for Brazil, Rio Grande do Sul's municipalities have accumulated very little debt, having participated in very few lending programs in the past. Even using pre-tax reform parameters of revenues (which are expected to increase by on average 35% under the new Constitution), municipal debt capacity in Rio Grande do Sul is estimated to be more than three times that necessary to be able to service the PIMES project sub-loans. Supported by the program's Financial Action Plans and the Institutional Development component, PIMES's cost recovery policies (details in Annex 11) will avoid undue burdens upon municipal finance. Excluding the costs of the electricity and water components (which will be fully recovered by internal cross-subsidies within the public entities providing them) and also the cost of operation of the community facilities, the municipalities will recover 100% of project costs. The institutional development component of the project itself should be instrumental in assisting municipalities to increase their own taxation revenues through extending and modernizing cadastres, for example. The Rio Grande do Sul State Government is being encouraged to implement policy changes in connection with the operating costs of community facilities by redirecting some of the subsidies away from higher income groups (who can provide full cost recovery) to lower income beneficiaries.

### Economic Justification

5.03 The overall internal rate of return for all components except community facilities was estimated using the increase in land values to estimate benefits. Preliminary calculations in Rio Grande do Sul show an internal rate of return (IRR) of 19.9% for components that represent about 70.9% of the total investment cost. The IRR falls to 15.4% if costs increase by 20% and to 14.4% if benefits fall by 20%.

### Poverty Impact

5.04 The beneficiaries of the investments made under PIMES, through appropriate design standards and locations, will be targeted among households with an income of up to 5 minimum salaries. 816,000 urban households (52% of the total of Rio Grande do Sul) were in this range of income in 1986. The project will also increase employment. Accepting the estimate of 30% for the

cost of labor in total project cost, and using a rough estimate of the monthly wage of (low income) construction workers of US\$100, the project should generate over 50,000 man years of work in Rio Grande do Sul.

### Environmental Impact

5.05 The project will directly contribute to containing environmental damage that has resulted in the past from uncontrolled urban growth and to minimizing further deterioration through better planning and improved resource management. Specific design features of components accounting for 47.8% of project costs (notably water, sewerage, drainage and solid waste) will seek to correct existing environmental problems or prevent them from happening in the future, such as by controlling or preventing pollution of water reserves, better disposal of solid and toxic waste, especially from hospitals, and control of water pollution and hillside erosion.

### Project Benefits and Risks

5.06 The improved capacity by the State of Rio Grande do Sul and its municipalities to mobilize and allocate local resources, coupled with overall improved fiscal policies and management, will ensure the sustainability of investments, provide a timely response to new demands upon local governments (dictated by the recently approved Constitution), and also directly contribute towards meeting macro-economic objectives of increased public sector efficiency and lower deficits. The project's emphasis on targeting investments to the urban poor, will improve their living standards, and additional unquantifiable benefits are derived from the large number of project components which directly contribute to the reduction of environmental damage caused by uncontrolled urban growth.

5.07 There are two specific risks: (a) a possible lack of financial capacity of the State and hence the political will to stay the course, and (b) difficulties inherent in coordination, given the large number of participating sub-borrowers. Sub-project and sub-borrower eligibility criteria, secure guarantee through receipts and sales tax commitments, and agreed policies for full cost recovery have been designed to minimize the former. In addition, the enthusiasm shown and results achieved by both State and municipal governments, in spite of a very difficult external environment, ensure strong political commitment to project objectives. Considerable attention has been placed on defining the institutional arrangements for the PIMES program, before project inception, including that of centralizing key activities within BADESUL. The organization, principles and procedures for implementing the project will have been set out in a pre-approved Operation Manual, which should reduce the risk of problems resulting from the lack of coordination. There are risks of slow disbursements in the early stages of the project through the lack of previous experience with the Bank of some of the agencies concerned, although BADESUL's own previous experience with the sector should soon enable disbursements to accelerate. The risk, however, will be mitigated by the close attention given to detailing withdrawal procedures in PIMES Operation Manual, and in the monitoring system. It has also been taken into account by a project disbursement schedule which foresees gradual acceleration after slower disbursements in the early stages of project execution. Because of the straightforward nature of the technical assistance, training and civil works involved, there are few technical risks to the project.

**PART VI. AGREEMENTS REACHED DURING NEGOTIATIONS AND RECOMMENDATIONS**

**6.01** All documents previously requested as a Condition for Negotiations were received by the Bank (see Annex 16). BADESUL undertook to submit (prior to Loan Signing) revised Manuals based on the agreements reached.

**Agreements Reached during Negotiations:**

**6.02** Related to the specific conditions of the PIMES project:

- (a) on the contents and format of the set of the eight (8) Operation Manuals and the Borrower's compliance therewith (para. 2.03);
- (b) that (i) a special "Task Force" with functions and staff satisfactory to the Bank, be set up and maintained in the STASC; and (ii) that prior to December 31, 1990, STASC and BADESUL will have had completed a management study, under terms of reference satisfactory to the Bank, of the organizational, financial, administrative and policy aspects of the COHAB-RS, in order to improve and expand programs for low income housing in the State (para.2.05(b));
- (c) on the eligibility criteria for Participants and Sub-borrowers (Annex 4); for selection of beneficiaries of housing loans (Annex 3.3); and for the selection of Sub-projects (Annex 5); (para. 2.06);
- (d) that the Borrower would by December 31, 1990 contribute at least the equivalent of US\$21,000,000 to FUNDO PIMES, on terms and conditions satisfactory to the Bank (para. 2.10);
- (e) that the Borrower shall maintain the CD with functions and responsibilities satisfactory to the Bank (para. 3.01);
- (f) that BADESUL adequately staff and maintain the Project Unit satisfactory to the Bank (para. 3.01);
- (g) that (i) BADESUL will ensure efficient project supervision by exercising adequate quality control through the regular use of independent consultants to carry out performance audits (ii) on the monitoring and evaluation requirements for the project; (iii) on the completion of an interim review by September 30, 1991 of the performance of the pilot housing sub-component; and that (iv) by November 30, 1989 BADESUL will furnish to the Bank a set of financial, economic, technical, environmental and social indicators, satisfactory to the Bank (para.3.04);
- (h) on procurement, that in addition to "Development Business" and the local Diário Oficial, newspapers of wide national circulation in Brazil will be used to advertise annually, the types and sizes of contracts to be awarded during the following two years for both ICB and LCB (3.06);
- (i) that by October 31 of each year, the State and BADESUL will carry out jointly with the Bank a yearly review of: (i) the borrowing capacity and credit worthiness of the municipalities, CORSAN, COHAB-RS, the MWC's and other eligible Sub-borrowers; (ii) resource allocation, including grants and sub-loans, under PIMES by region, type of municipalities, and nature of investments for the current and forthcoming calendar years; (iii) indicators of fiscal, financial and cost recovery performance of the Sub-borrowers; and (iv) the status of the Institutional Development Component (para. 3.12);

- (j) on (i) the operating terms and conditions of FUNDOPIMES (terms of 5, 10 and 15 years including 1 year grace with variable real interest at least 3% above the cost of borrowing); (ii) the participation of Financial Agents (and the execution of Financial Agency and Housing Agency Agreements); and on an annual (by October 31 each year) exchange of views with the Bank on the adequacy of the financial terms of the Sub-loans, the prevailing rates for similar loans, the rates of inflation, and the Borrower's cost of funds (para. 4.02);
- (k) on the criteria for allocation of grants (Annex 5), and that the total amount allocated and paid in a given year shall not exceed the equivalent of 15% of the total allocated for Sub-loans for the same year (para. 4.04);

In addition, the following agreements were reached specifically for CORSAN and the MWC's:

- (l) that: (i) during implementation, there would be compliance with the National Tariff Law, for CORSAN, and with the following requirements for the MWC's: that operational receipts cover the total cost of operations, any depreciation charges and all debt service costs (interest and amortization). Revenues should also generate sufficient internal cash as required for counterpart funds in the financing plan for both CORSAN and the MWC's; and that CORSAN and the MWC's take any required administrative and legal actions by December 31, of each year to adjust all accounts receivable for inflation; (ii) that CORSAN maintain a debt/equity ratio no greater than 65:35 for FY 1990, and 60:40 thereafter; (iii) that CORSAN's debt service coverage not fall below 1.5; (iv) that CORSAN (by June 30 1990) and the MWC's (by September 30, 1990) complete marginal cost pricing studies, and implement marginal cost pricing within 12 months of completion of the studies; (v) on an agreed schedule for each company to complete a study of its asset value (not later than 15 months from Date of Loan Effectiveness for CORSAN and by December 31, 1990 for other companies), based on current market costs and realistic depreciation charges, and the subsequent incorporation of any required asset value and accounting procedure changes deemed necessary by such studies starting December 31, 1991, and to carry out revaluation updates on a triennial basis; (vi) on submission to the Bank, not later than January 31, 1990 for CORSAN, and within 30 days of its first Sub-loan Agreement, thereafter October 31 of each year (including 1990), a general financial projection for the following five-year period, including specific details on investment plans for the upcoming year; departures of more than 10% of the investment targets proposed are to be agreed in consultation with BADESUL and the Bank (para. 4.07);
- (m) on financial and operating monitoring indicators and levels, to be included as conditions of water companies' participation agreements and sub-loan agreements with BADESUL (para. 3.04);

6.03            Related to more general conditions of Bank lending:



- (o) that: (i) the State makes available adequate counterpart funds (defining sources, amounts and timing) in accordance with the financing plan agreed with the Bank; (ii) a Special Account be established in the Central Bank with a deposit of US\$7,000,000; (iii) procurement for civil works, goods and consulting services be undertaken in accordance with the World Bank's guidelines; (iv) that BADESUL furnish quarterly progress reports to the Bank, and be responsible for organizing and preparing the Project Completion Report six months after Closing Date; and (v) annual audits be carried out, satisfactory to the Bank, on all project financial documents of BADESUL, FUNDOPIMES, and all sub-borrowers project accounts (end-year financial statements, project accounts, statements of expenditure and the Special Account).

#### Conditions of Disbursement

6.04 Agreement was also reached that disbursement against a Sub-loan, in the cases noted below, would be subject to the following conditions having been met:

- (a) the submission of an appraisal (technical, financial, economic, environmental, institutional and legal aspects) satisfactory to the Bank for (i) any single sub-project costing US\$3 million or more; (ii), a Regional Environment Sub-project (with terms of reference satisfactory to the Bank); (iii) the Rio dos Sinos Basin Pollution Control Sub-project (with terms of reference satisfactory to the Bank); (iv) a pilot Housing Sub-project;
- (b) the submission of a satisfactory resettlement plan for any sub-projects involving the relocation of families, unless the Bank shall have approved the respective resettlement plan and the Sub-borrower has assumed a legally binding commitment to carry out such a plan;

#### Conditions of Effectiveness

6.05 For the loan to become effective, it was agreed that the following conditions be met:

- (a) the Loan Agreement has been registered by the Central Bank;
- (b) the BADESUL Agreement has been executed on behalf of the State of Rio Grande do Sul and BADESUL;
- (c) that a Financial Agency Agreement has been executed of behalf of the Borrower through BADESUL and BANRISUL;
- (d) the Project Unit and the CD have been established;
- (e) the "Task-Force" in STASC has been established and adequately staffed, in terms satisfactory to the Bank; and
- (f) the Borrower has contributed to FUNDOPIMES, on terms and conditions satisfactory to the Bank, the equivalent of at least US\$7,000,000.

#### Recommendation

6.06 With the above assurances, agreements and conditions, the proposed project would be suitable for a Bank loan of US\$100.0 million to be repaid over 15 years including five years of grace.

BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULDemographic and Economic Trends in the State

1. High rates of population growth and household formation in urban areas require that a substantial effort will have to be made just to meet Brazil's demographic demand for housing and basic urban infrastructure in the coming decade. As can be seen from Table 1.1, Brazil's population grew by 2.5% per year during the 1970's, and its urban population by 4.4% a year. The growth rate of urban household formation, having been propelled by young people entering the prime ages of family formation was even higher at 5.7% a year. Even with a slowing down of this trend over the 1986/95 period, urban households are still projected to increase by 3.7% a year to 32.7 million in 1995, almost twice the number Brazil had in 1980.

2. The State of Rio Grande do Sul had a total population of 8.6 million in 1986. The State's share of Brazil's urban population (6.0% of the total) is similar to its share of the country's urban population (6.3%). The growth of demographic demand in Rio Grande do Sul was about the same during the 1970's than for Brazil as a whole, and will be more slightly more intense than the country as a whole during the coming years as can be seen in Table 1.1. The urban population in Rio Grande do Sul grew at a rate of 4.0% per year over the 1980's to 5.2 million in 1980 (an absolute increase of 1.7 million). Urban household formation in Rio Grande do Sul, with an annual growth of 5.7%, was similar to Brazil's as a whole during the 1970's: 5.6% a year.

3. The Brazilian Statistical and Geographical Foundation (FIBGE) projects annual urban household formation of 4.0% over the 1986 to 1995 period for Rio Grande do Sul, an absolute increase of 671,000 urban households for this period. This increment by itself would be equivalent to nearly half the present number of urban households in the State.

4. This rapid rise in demographic demand will have to be met despite a dramatic rise of households below the poverty line in Rio Grande do Sul. The incidence of poverty in urban areas Rio Grande do Sul was high in 1986 and has risen very rapidly during the first years of this decade. There were 290,000 urban households with incomes of two minimum salaries or less in Rio Grande do Sul in 1986 (18.5% of the total), and 816,000 urban households with incomes of 5 minimum salaries or less (52.0% of the total) (details in Table 1.2).

5. A recent study of poverty (details given in Tables 1.3 and 1.4) showed that the percentage of total population living in families with incomes below the poverty line to be 22.5% in the Metropolitan Region of Porto Alegre in 1985.<sup>1</sup> While this was not the highest share among Brazil's metropolitan regions, what is significant has been its very rapid rate of growth, so that,

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Sonia Rocha, LINHAS DE POBREZA PARA AS REGIOES METROPOLITANAS NA PRIMEIRA METADE DA DECADE DE 80, IPEA/INPES, 1988, xerox.

after four years, it was 2.6 times higher. In absolute terms, this would mean that there were 421,000 more people living in poverty in Porto Alegre in 1985 than in 1981. The per capita poverty line in the metropolitan regions of these two States in 1985 was about a half a minimum salary or about 2 minimum salaries for a family of four.<sup>2</sup>

6. Beyond the metropolitan region of Porto Alegre itself, the state of Rio Grande do Sul has a wide range of city sizes making up its urban structure. Table 1.5 shows the distribution of municipalities by population size groups in 1985. The importance of smaller cities (which are expected to be active clients of PIMES) is brought out by the fact that over 5.5 million people (55.7% of the State's total population) lived in municipalities with 100,000 or less inhabitants in 1985.

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**BRAZIL**  
**MUNICIPAL DEVELOPMENT PROJECT**  
**IN THE STATE OF RIO GRANDE DO SUL**  
**Table 1.1**

**POPULATION AND HOUSEHOLDS BY STATE AND LOCATION (RURAL/URBAN)**  
**BRAZIL, RIO GRANDE DO SUL: 1970/2000**  
**(000's)**

	1970	1980	1986	1990	1995	2000	Change 86/95	
							Abs.	% p.a.
<b>Population</b>								
Brazil	93,139	119,003	135,608	148,394	166,084	179,486	30,476	2.3%
Rural	41,054	38,566	38,844	38,945	37,072	36,381	228	0.1%
Urban	52,085	80,436	98,764	111,217	129,012	143,105	30,248	3.0%
<b>Rio Grande do Sul</b>								
Rio Grande do Sul	6,665	7,774	8,646	9,152	9,826	10,454	1,180	1.4%
Rural	3,112	2,523	2,744	2,383	1,998	1,884	(746)	-3.5%
Urban	3,553	5,251	5,901	6,691	7,828	8,570	1,927	3.2%
<b>Households</b>								
Brazil	17,629	25,211	31,100	35,116	40,872	45,764	9,772	3.1%
Rural	7,352	7,440	7,580	7,817	8,124	8,151	544	0.8%
Urban	10,276	17,771	23,520	27,248	32,748	37,613	9,228	3.7%
<b>Rio Grande do Sul</b>								
Rio Grande do Sul	1,308	1,831	2,227	2,445	2,747	3,010	520	2.4%
Rural	562	538	654	581	502	486	(152)	-2.9%
Urban	746	1,293	1,574	1,843	2,245	2,524	671	4.0%

SOURCES: IBGE, CENSO DEMOGRAPHICO 1980; PNAD-1986 and Luis Armando de Medeiros Fries, PROJEÇÕES DA POPULAÇÃO RESIDENTE E NÚMERO DE DOMICÍLIOS PARTICULARES OCUPADOS: 1986-2020, Volume I, Número 5, Textos para Discussão, IBGE, Rio de Janeiro, Maio de 1988.

**Table 1.2**  
**PRIVATE URBAN HOUSEHOLDS BY MONTHLY HOUSEHOLD INCOME**  
**RIO GRANDE DO SUL - 1986**  
**(thousands of households)**

Number of Household Members	Total	Monthly Household Income Groups (Minimum Salaries)						
		1 or less	> 1-2	> 2-5	> 5-10	> 10-20	> 20	No Response
Total	1669.89	102.81	186.95	528.20	416.34	209.92	114.70	12.97
% of Total	100.00	6.5	11.9	33.5	26.6	13.4	7.3	0.8
Accum. %		6.5	18.5	52.0	78.5	91.9	99.2	100.0

Source: IBGE, Pesquisa Nacional por Amostra de Domicílios, 1986

BRAZIL  
MUNICIPAL DEVELOPMENT PROJECT  
THE STATE OF RIO GRANDE DO SUL  
Table 1.3

POPULATION BELOW POVERTY LINE BY  
METROPOLITAN REGION IN BRAZIL 1981/1985

Metropolitan Region	% of Total Population Under Poverty Line			
	(1) 1981	(2) 1985	Change	
			(2-1)	(2/1)
Belem	32.3	43.9	11.6	1.4
Fortaleza	38.4	41.7	3.3	1.1
Recife	39.2	47.4	8.2	1.2
Salvador	28.7	38.0	9.3	1.3
Belo Horizonte	18.1	35.3	17.2	2.0
Rio de Janeiro	15.4	36.1	20.7	2.3
Sao Paulo	10.8	26.3	15.5	2.4
Curitiba	6.0	21.6	15.6	3.6
Porto Alegre	9.4	22.5	13.1	2.4

SOURCE: Sonia Rocha, LINHAS DE POBREZA PARA AS REGIOES METROPOLITANAS NA PRIMEIRA METADE DA DECADE DE 80, IPEA/INPES, 1988

Table 1.4

POPULATION BELOW POVERTY LINE IN METROPOLITAN REGIONS  
OF PORTO ALEGRE AND CURITIBA 1981/1985  
(000'S)

Metropolitan Region	1981	1985	Change 81/85	
			Abs.	%
Porto Alegre	188	609	421	223.7
Curitiba	78	410	332	426.2

Source: Ibid. (Population estimates: IBGE -PNAD)

BRAZIL  
MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL

Table 1.5

MUNICIPALITIES OF RIO GRANDE DO SUL  
AND THEIR POPULATION BY SIZE GROUP: 1985  
(000's)

Population Size Groups (No.)	Total Municipalities 1985	Population 1985		
		Total	%	Accum. %
10,000 or less	156	883.5	9.8	9.8
10,001 - 20,000	95	1,304.8	14.5	24.2
20,001 - 40,000	36	999.3	11.1	35.3
40,001 - 70,000	21	1,134.0	12.6	47.9
70,001 - 100,000	9	708.5	7.8	55.7
100,001 - 150,000	7	839.7	9.3	65.0
150,001 - 200,000	4	706.2	7.8	72.8
200,001 - 250,000	1	203.1	2.2	75.1
Over 250,000	4	2,247.9	24.9	100.0
<b>TOTAL:</b>	<b>333</b>	<b>9,027.0</b>	<b>100.0</b>	

Source: IBGE, Population projections for Municipalities.

Note: Estimates based upon extrapolation of 1970/80 trends.

BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL

State and Municipal Finances

Impact of the New Constitution

1. The fiscal reform of the new Constitution reestablished fiscal federalism in Brazil by both increased sharing of Federal revenues with the states and municipalities and also granting them increased taxing powers, including the transfer of previously Federal taxes to them. The result is a significant increase in the fiscal autonomy of states and municipalities. Table 2.1 summarizes which level of government -- federal, state or municipal -- will be responsible for the collection of different types of taxes following the fiscal reform of the new Constitution.<sup>1</sup> The distribution of the revenues by each type of tax and their respective destination among the different levels of government appears in Table 2.2. Table 2.3 shows how the transfers to states and municipalities will increase substantially over the 1989/1993 period, and that most of the increase comes within the first two years of the reform. For example, the total amount of (Federal) Income and Industrial Production Taxes shared will rise from 40.0% in 1988 to 52.5% in 1989 (principally due to the newly instigated Fund for Exporting States), and then by about one percentage point per year to 51.0% in 1993. In terms of revenue, these two are the most important federal taxes, whose collections together account for 8.0% of GDP, or US\$16.5 billion in 1987, 6.5% more of which (about US\$1.1 billion) will be shared with states and municipalities.<sup>2</sup> Of course, these additional revenues will be accompanied by greater responsibilities of municipalities to provide urban infrastructure and services of the kind that will be included in the PIMES project.

2. This fiscal decentralization and the effort to control the public sector deficit prompted the Federal Government to propose cuts of over US\$5 billion for fiscal year 1989 through the "Operation Dismantle". However, Congress did not approve these cuts entirely, and the general reduction of the fiscal deficit is still being discussed at the time of writing.

3. The total revenues of both states and municipalities will rise significantly, but the municipalities will increase much more. Simulations show

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1 "A Constituinte e a Reforma Tributária", CONJUNTURA ECONOMICA, 15 de agosto de 1988, pp. 7-10. See also, Claudino Ramon Pito, A NOVA CONSTITUINTE E O SISTEMA TRIBUTARIO, Instituto Brasileiro de Economia, Fundação Getúlio Vargas, 1988.

2 In that year, Federal Income Tax revenues were equivalent to 3.3% of GDP, while those of Industrial Products Tax were about 4.7% of GDP.

that total revenues of the State of Rio Grande do Sul will be 10.9% higher in 1993 than in 1985 due to an 7.5% increase in tax revenues and a 40.0% increase in funds from Federal revenue sharing.<sup>3</sup> The size of increases in total municipal revenues available will vary from municipality to municipality according to its size and type of economic activity, but the range is from 21.3% to 45.1% additional revenue for the 1985/93 period.<sup>4</sup> For example, simulations of increases for two municipalities in Rio Grande do Sul demonstrated substantial gains: 40.0% in Caxias do Sul and 45.1% in Estéio. The Secretary of Finance of the State of Rio Grande do Sul estimated an average increase of 38% for municipalities in the State during this period. Industrial municipalities tend to be concentrated at the higher end of the range, and the dormitory suburbs of the metropolitan areas at the lower end. However, the formula used for distribution among municipalities may still be changed in legislation that is pending. Nevertheless, based upon the underlying constitutional precepts, it is still expected that revenue gains by municipalities will indeed be dramatic. With the revenue gains will come greater responsibilities and the need for higher expenditures. Improving the management of these will be the central purpose of the Global Financial Action Plans (PGAPs) prepared under the Institutional and Human Resource Development Component of this project (see: Annex 3.1).

4. Another set of simulations undertaken for a sample of municipalities of Rio Grande do Sul (See Table 2.4) and based upon the 1985 fiscal year showed increases in total current revenues ranging from 26.7% for Porto Alegre to 38.8% for a medium-size city (Carazinho), and 35.1% for other municipalities.<sup>5</sup> Extrapolated for all municipalities, these increases would lead to an increase of increase of US\$150 million in current revenues for all of the municipalities of the Rio Grande do Sul in one year. Given the criteria used in the Municipal Participation Fund, smaller and medium size cities normally receive more. Large, dormitory suburbs, where the concentration of the poor is high, of the urban agglomerations, however, will not fare as well, as they have relatively large populations, lowering their participation in the Municipal Participation Fund

3

Fernando Rezende and Jose Roberto R. Afonso, A REFORMA FISCAL NO PROCESSO DE ELABORAÇÃO DA NOVA CONSTITUIÇÃO, Textos para Discussão Interna, No. 121, Novembro de 1987. These simulations are based on proposal presented to the Constitutional Convention which were adopted with some slight modifications. According to Rezende, the total impact of these modifications upon the results of the simulations would be quite small. All simulations referred to here were based on current tax revenues for existing taxes and on other economic data for the new taxes.

4

Rezende and Afonso, op.cit.

5

Banco Regional de Desenvolvimento do Extremo Sul, REFORMA TRIBUTARIA E FINANÇAS MUNICIPAIS, Porto Alegre, Outubro 1988.



and small industrial bases. The change in the distribution criteria of the new Tax Code, currently being debated by Congress, may well address this inequity.

### Debt Capacity

5. Since most municipalities throughout Brazil -- with the exception of the capital cities of States -- have had little access to credit programs in the past, they have accumulated very little debt, and still have enormous scope to exploit their under-utilized debt capacity. The municipalities of the State of Rio Grande do Sul are no different in this respect. Their total debt as of December 31, 1988 was only US\$4.9 million against annual revenues of the order of US\$562 million. They are among the least indebted in Brazil, simply because they have long been isolated from Federal Government inspired urban development programs (and consequently have seen their urban infrastructure decay).

6. To establish the limits of debt capacity (a formality in the case of Rio Grande do Sul where municipalities have practically no debts at least at project start-up) which will be used to help determine the eligibility of municipalities to participate in PIMES and take loans from the Urban Development Fund - FUNDOPIMES, it was agreed to apply similar criteria to the recently approved PEDU project in Paraná. These had been previously tried in the Santa Catarina Small Towns Development Project (Loan 2623-BR) and were consistent with current Brazilian legislation. Under the latter, borrowing operation by States and Municipalities are subject to three principal limits, which are established in Federal Resolution No. 62, October 28, 1975 and amended by Resolution No. 64 of July 11, 1985. Exceptions are classified as "extra-limit" and must be submitted to the Federal Senate via the Central Bank for approval on a case by case basis. To qualify for any additional borrowing, a municipality must meet the following three conditions:

- (a) Its total debt outstanding at any one time must be less than 70% of the value of its total revenues (both own taxation and also transfers) of the previous fiscal year adjusted for inflation;
- (b) In addition, any additional debt acquired in any one fiscal year shall not exceed 20% of its total revenues (both own taxation and also transfers) of the previous fiscal year adjusted for inflation, and
- (c) Its total debt service in any one year shall not exceed 15% of the value (in that year's prices) of its total revenues of the previous fiscal year adjusted for inflation.

7. Thus, the total debt capacity of the municipalities of the State of Rio Grande do Sul was estimated by the government using these criteria with the following results:

- (a) Capacity now to assume additional debt of up to US\$388.5 million (70% of total revenues minus existing debt): the PIMES project foresees additional municipal borrowing of about US\$79 million over five years;
- (b) Up to US\$112.4 million of additional debt can be contracted per annum (20% of total revenues): the PIMES project foresees the annual increase in borrowing peaking to about US\$20 million in the fourth year of implementation, and
- (c) Capacity to pay an additional annual debt service of up to US\$80.2 million (15% of total revenues minus existing debt service payments): At current levels of interest, annual debt service on PIMES sub-loans to municipalities is not expected to exceed US\$19 million.

8. It was agreed that the verification of the debt capacity of the State Government itself would be undertaken by the Federal Ministry of Planning (SEPLAN). The Bank was advised that Rio Grande do Sul's debt capacity was found to be adequate.

#### Project Impact upon Municipal Finances

9. The assessment of municipal debt capacity on a case by case basis will be undertaken initially to help determine the eligibility of a participant to receive a sub-loan under the program. It is also a key aspect of the diagnostic of the municipality's overall financial health and one which will be monitored throughout project implementation. Each municipality's own Financial Action Plan (PGAF) will, among other things, aim to increase its debt capacity. Although project lending itself will use up part of that capacity through its own lending, project technical assistance will aim to increase it through providing consultants' services and training to help increase revenues and encourage a more efficient allocation of resources. The PGAF for each municipality will highlight targets for that particular city to improve its finances and administration. Progress and success in meeting those targets will be continuously monitored by BADESUL throughout project implementation. By way of incentive for municipalities to make such improvements, only those observed to be making progress on this front will be entitled to infrastructure financing offered by the project through FUNDOPIMES.

**BRAZIL**  
**BRAZIL - MUNICIPAL DEVELOPMENT PROJECT**  
**IN THE STATE OF RIO GRANDE DO SUL**  
**Table 2.1**

**RESPONSIBILITIES FOR TAXATION**  
**UNDER BRAZIL'S NEW CONSTITUTION**

Level of Government Responsible for Collection:		
Federal	State	Municipal
*Income Tax (IR)	Value Added Tax (ICMTC)	Service Tax (ISS)
*Industrial Products Tax (IPI)	Inheritance and Gift Taxes (CMD)	Urban Land and Property Tax (IPTU)
Import Tax (II)	Motor Vehicle Property Tax (IPVA)	Retail Sales Tax on Fuel (IVVC)
Export Tax (IE)	Additional Capital Gains Tax	Transfer of Property Tax (TIV)
Rural Land Tax (ITR)		
Credit Operations Tax (IOC)		
Wealth Tax (IGF)		

Note: \* Income and Industrial Property Taxes, the ones to be increasingly shared with States and Municipalities, account for at least 75% of federal tax revenues.

Source: NOVA CONSTITUICAO BRASILEIRA, Sistema Journal do Brasil, Article VI, "Da Tributacao e do Orcamento", pp. 67-78.

**BRAZIL**  
**MUNICIPAL DEVELOPMENT PROJECT**  
**IN THE STATE OF RIO GRANDE DO SUL**  
**Table 2.2**  
**SHARING OF TAX REVENUES UNDER**  
**UNDER BRAZIL'S NEW CONSTITUTION**

Taxes shared:	Proportion shared by respective level of government (%)			
	Total	Federal	States	Municipalities
<b>FEDERAL</b>				
Income Tax (IR)	100.0	53.0	24.5 (a)	22.5
Industrial Products (IPI)	100.0	43.0	34.5 (b)	22.5
Import Tax (II)	100.0	100.0	-	-
Export Tax (IE)	100.0	100.0	-	-
Rural Land Tax (ITR)	100.0	50.0	-	50.0
Financial Operations (IOC)	100.0	100.0	-	-
Wealth Tax (IGF)	100.0	100.0	-	-
<b>STATES</b>				
Value Added Tax (ICMS)	100.0	-	75.0	25.0
Inheritance and Gift Taxes (CMD)	100.0	-	100.0	-
Motor Vehicle Property Tax (IPVA)	100.0	-	50.0	50.0
Tax on non-Wage Income	100.0	-	100.0	-
<b>MUNICIPALITIES</b>				
Service Tax (ISS)	100.0	-	-	100.0
Urban Land and Property Tax (IPTU)	100.0	-	-	100.0
Retail Tax on Fuel (IVVC)	100.0	-	-	100.0
Transfer of Property (TIV)	100.0	-	-	100.0

Source: NOVA CONSTITUICAO BRASILEIRA, Sistema Journal do Brasil, Article VI,  
 "Da Tributacao e do Orcamento", pp. 67-78.

**Notes:**

- (a) Includes 3% to finance programs to be administered by Development Banks of the North-East, North and Center-West Regions.
- (b) Includes (a) plus an additional 10% of IPI for exporting states to compensate their losses of revenues from ICMT from which exports are exempt.

**BRAZIL - MUNICIPAL DEVELOPMENT PROJECTS  
IN THE STATE OF RIO GRANDE DO SUL  
Table 2.3**

**EXPECTED REVENUE INCREASES OF SELECTED MUNICIPALITIES  
OVER 1987-93 PERIOD UNDER BRAZIL'S NEW CONSTITUTION**

(% of respective revenues for 1987)

City type:	Porto Alegre	Novo Hamburgo	Cruz Alta	Carazinho	Viamão
	State Capital	Industrial	Service	Mixed economy	Residential
<b>Type of Revenue:</b>					
<b>OWN SOURCE REVENUES</b>	22.2	23.7	39.1	43.7	33.3
-----	----	----	----	----	----
<b>TAXATION</b>	28.2	30.7	78.3	71.1	68.5
<b>TRANSFERS/REVENUE SHARING</b>	31.1	37.7	33.5	37.5	31.6
-----	----	----	----	----	----
<b>FEDERAL</b>	20.5	34.4	33.5	35.6	36.1
Municipalities					
Participation Fund	40.6	40.6	40.6	40.6	40.6
Rural Land Tax (ITR)	-50.0	-50.0	-50.0	-50.0	-50.0
<b>STATES</b>	33.9	38.5	33.5	38.8	24.7
Value Added Tax (ICMTC)	34.4	34.4	34.4	34.4	34.4
Inheritance and Gift Taxes (CMD)	-70.0	-70.0	-70.0	-70.0	-70.0
<b>TOTAL CURRENT REVENUES</b>	26.7	32.4	34.9	38.8	32.8
=====	=====	=====	=====	=====	=====

Source: Banco Regional de Desenvolvimento do Extremo Sul, REFORMA TRIBUTARIA E FINANÇAS MUNICIPAIS, Porto Alegre, Outubro 1988.

**BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Table 2.4**

**STATE AND MUNICIPAL SHARING OF COMBINED FEDERAL  
INCOME (IR) AND INDUSTRIAL PRODUCT (IPI) TAX  
REVENUES UNDER BRAZIL'S NEW CONSTITUTION**

Projections for 1987-1993 period  
(% of combined IR and IPI revenues)(1)

	1987	1988	1989	1990	1991	1992	1993
<b>General Participation Funds:</b>							
=====							
State governments share	14.0	18.0	19.0	19.5	20.0	20.5	21.5
Municipal governments share	17.0	20.0	20.5	21.0	21.5	22.0	22.5
Sub-total	31.0	38.0	39.5	40.5	41.5	42.5	44.0
	----	----	----	----	----	----	----
<b>Special Funds:</b>							
=====							
Fund for the North, North-East and Center West Regions (2)	2.0	2.0	3.0	3.0	3.0	3.0	3.0
Fund for Exporting States (3)	0.0	0.0	4.0	4.0	4.0	4.0	4.0
Sub-total	2.0	2.0	7.0	7.0	7.0	7.0	7.0
	----	----	----	----	----	----	----
<b>TOTAL</b>	<b>33.0</b>	<b>40.0</b>	<b>46.5</b>	<b>47.5</b>	<b>48.5</b>	<b>49.5</b>	<b>51.0</b>
	=====	=====	=====	=====	=====	=====	=====

Source: Banco Regional de Desenvolvimento do Extremo Sul, REFORMA TRIBUTARIA E FINANÇAS MUNICIPAIS, Porto Alegre, Outubro 1988.

Notes:

- (1) The absolute size of the shares involved can be appreciated from the level of total collections of IR and IPI in 1988, estimated at about US\$16.5 billion equivalent.
- (2) Special Fund for North, North-East and Center West Regions will administer a share of 2-3% of total IR and IPI through Regional Development Banks in the respective Regions' states and municipalities.
- (3) Special Fund for Exporting States will take a share of 10% of total IPI collected and divide it among states according to criteria based upon export performance in order to compensate them for their lost Value Added Tax (ICMTC) from which exports are exempt. The share estimated here has been based upon the assumption that IPI collections will remain constant at 67% of IR collections as last observed in preliminary results for 1988.

BRAZIL  
MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL

Table 2.5

ESTIMATE OF MUNICIPALITIES' TOTAL  
DEBT CAPACITY AND DEBT SERVICE CAPACITY

(in thousands of US dollars)

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A.	Adjusted Revenue: (1987)	423.9
B.	Total Existing Debt: (Dec 31, 1988)	36.5
C.	Total Debt Ceiling (A x 0.7)	295.7
D.	Total Debt Capacity (C - B)	260.2 -----
E.	Total Existing Debt Service (1987)	7.3
F.	Total Debt Service Ceiling (A x 0.15)	63.6
G.	Total Debt Service Capacity (F - E)	56.3 -----

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Source: State Secretariat of Finance Rio Grande do Sul

## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULInstitutional and Human Resource Development ComponentBackground

1. Municipalities in Brazil gained considerable new powers, resources and responsibilities, under the New Constitution promulgated in October 5, 1988. In Rio Grande do Sul, municipalities thus find themselves responsible for the delivery of such diverse services as sanitation, water supply, education, local health care and even public transport; all this in addition to statutory responsibilities for administration, land use control, taxation and some aspects of local law and order. With the exception of a small percentage, most municipalities lack an adequate number of qualified staff (particularly in management and mid-level posts). The financial situation of municipalities in spite of additional financial resources, could eventually reach a critical stage of deterioration, due to a lack of modernization of the administrative machinery of these municipalities, to permit them to assume their new responsibilities. The project objectives are to fill this gap, through the provision of technical assistance and the development of human resources.

2. In addition, a number of related services were previously provided by federal and state sector agencies, many of which have since been abolished, restructured, or generally allowed to deteriorate as a consequence of the prolonged economic crisis. Inflationary pressures have also led to a "brain drain" of large numbers of experience persons, out of the public sector. The state administrative machinery however will continue to function, albeit in a modified manner, to assist and support municipal governments in their new role. Training of the human resources of selected non-municipal agencies, to adequately adapt to their new role is an urgent priority.

3. Key issues identified during preparation of this component were:
- (a) there has hitherto been no clear, consistent or coherent policy for the development of the human resources of municipal and state sector agencies;
  - (b) training needs have not been identified in a manner that adequately relates available (supply driven) training to demand, either in the numbers required, their operational requirements, or to the "trainability" of the target group;
  - (c) training budgets have traditionally been early victims of budgetary cutbacks (reflecting a low priority by government); and
  - (d) there is considerable scope for a qualitative and quantitative improvement in the supply of training (in pedagogic skills, techniques, development and implementation of evaluation and tracer studies, etc.) and a real need for strengthening the program for the "training of trainers".



The objectives through this component are to rectify present constraints and support Brazil's decentralization program, through the strengthening of the institutional framework and the development of human resources.

4. The beneficiaries under this component would include:

(a) Municipalities: Technical assistance, training and equipment to strengthen their financial management and overall administration. Financial management would focus particularly upon the preparation of Financial Action Plans (PGAF), improving tax policy and administration, updating and maintaining cadastres, financial information systems, investment planning and credit management, accounting procedures and practices. Improving general administration would include the preparation of Land Use Plans (Plano Diretor), preparation of administrative reform plans, operation and maintenance of Community and other public services, and implementing these, and other such improvements.

(b) BADESUL and selected sector agencies (CORSAN, DAEB, DAE, DMAE, SAMAE, SANEP, SEMAE, SDO and STASC, amongst others): technical assistance, training and equipment to improve their institutional capacity for project management, including in the appraisal of sub-borrowers and sub-projects, programming, planning and budgeting, overall coordination, and related improvements in project supervision, operations and maintenance; and

(c) Training and Technical Assistance Agencies: (principally the FDRH): strengthening of the institutional and technical capacity of selected training agencies which provide technical assistance and training in municipal administration, finance and urban management.

5. It is estimated that this component would represent about 10.1% (US\$18.8 million) of the base cost of PIMES, of which US\$11.9 (6.4%) would be the cost of technical assistance, and US\$6.9 million (3.7%) training, of which, about US\$2.9 million (1.5%) is estimated as the cost of technical assistance, and US\$1.9 million (1.0%) training, for BADESUL, FDRH, and selected sector and training agencies, as noted in paragraphs 5(b) and 5(c) above. Training unit costs (cost/participant/day) have been estimated on the basis of ongoing programs and have been averaged out from aggregated costs/day/event. These include rental of training rooms, training materials; instructor's honoraria, travel and "per-diem"; and participant's travel and "per-diem". Technical assistance costs have been estimated on a range of US\$2,500 to US\$7,500 per staff month for locally based consultants (to eliminate discrimination between local and foreign consultants doing the same job). About 16 foreign consultant staff months for miscellaneous specialist inputs have been budgeted at US\$9,500/sm. In addition "Fellowships" for national study tours totalling about 360 work-months @ US\$1,500 and about 20 international study tours @ US\$5,000 each are included under this component. The project would finance the cost of courses, travel and subsistence, and teaching materials and equipment. No civil works construction is to be financed under this component.

6. The "training" strategy for senior level officials would focus primarily on policy orientation seminars. For mid-level officials and other

employees, training would oriented towards knowledge enhancement and specific practical-skills training, and carried out through on-the-job training, courses, seminars, etc.. To the extent possible, existing facilities, courses, and curricula are to be utilized to initiate the programs. About 60% of the estimated expenditures on technical assistance and training for the first year of implementation will be directly based on the policies, practice and procedures included in the Operation Manuals of PIMES. Additional training materials are also to be developed under this component.

## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULSummary Description of Water and Sewerage ComponentBackground

1. For the State Water Company, CORSAN, sub-projects under PIMES would include mainly investments for connection of consumers in pockets of surplus capacity, in both water supply and sewerage treatment, with not more than about 20% of the total sub-project investments allocated for water production. Total investments in the sub-sector represent less than 20% of CORSAN's projected investment program for the period. Similar investments would be made by the Municipal Water Companies, except on a smaller scale. The details are as follows:

A. State Water Company (CORSAN): US\$48.2 million (60% of component)

- Water Distribution: Expansion of water networks, providing 900 km of networks to supply 65,000 new connections, or 250,000 inhabitants, about 85% in low-income communities;

- Water Production: Works to guarantee distribution of above component and to supply the production deficit in critical areas, such as the metropolitan Porto Alegre region;

- Sewerage Network Extension: Extension of 357 km of sewerage networks, and accompanying collectors, to supply over 20,000 connections or 80,000 inhabitants;

- Pollution Control: Contribution of CORSAN to the SINOS clean-up project of the Rivers dos Sinos and Gravatai, with concurrent treatment of domestic and industrial sewerage in new systems in the Valley of the River dos Sinos. The program total amount would be US\$80 million, to be done in stages. The first stage would be submission of a detailed study. Participants in the project would be CORSAN, municipalities, the State and industries (see Annex 3.5 for further details); and

- Operational Improvements: Micro-metering; macro-metering; replacement of networks; and general operational improvements.

B. Municipal Water Companies

1. DMAE (Porto Alegre): US\$ 19.8 million (25% of component)

- Water Connections to Low-Income Residents: Execution of distribution networks and water connections in towns and favelas, with the objective

of achieving the full water coverage of the city of Porto Alegre, benefiting 38,000 low-income people;

- Production: Improvement of production and macro-distribution systems to indirectly benefit all consumers, and to facilitate the new connections in the above component;

- Sewerage: Installation of 10,000 new sewerage connections (about 40,000 people) in priority areas; and

- Operational Improvements: Telemetry and telecontrol; control of losses (training, network replacement, etc.); and micro-metering.

2. SANEP (Pelotas): US\$ 4.0 million (5% of component)

- Water: none.

- Sewerage: 5,312 new connections to benefit 23,904 people in low-income communities; and

- Operational Improvements: telemetry and telecontrol, and micro-metering.

3. SAMAE (Caxias do Sul): US\$ 4.0 million (5% of component)

- Water Connections to Low-Income Residents: Expansion of distribution system and reservoirs, and about 7,000 new connections to benefit 28,000 people in low-income communities;

- Sewerage: Collection networks, and treatment to preserve water basin areas in low-income communities; and

- Operational Improvements: Micro-metering, macro-metering and control of losses (training, network replacement, etc.).

4. SEMAE (São Leopoldo): US\$ 2.0 million (2.5% of component)

- Water Connections to Low-Income Residents: Supply of water to 20,000 persons in low-income areas of Sao Leopoldo;

- Water Distribution: Amplification of the water distribution system in the North of the city, complementing the connection component mentioned above;

- Water Production: Works to improve water production by about 30%;

- Sewerage: Installation of sewerage services to 5,144 inhabitants in two priority areas of São Leopoldo; and

- Operational Improvements: 7,000 micro-meters, to improve metered-customer ratio.

5. DEASB (Bagé): US\$ 1.3 million (or 1.6% of component)

- Water Connections to Low-Income Residents: Extension of networks to supply 5,000 connections and benefit 20,000 people in low-income areas;

- Sewerage: Installation of 3,000 new connections to benefit 12,000, largely in priority areas; and

- Operational Improvements: Micro-metering to improve metered-customer ratio from 40% to 95%.

6. DAE (Sant'ana do Livramento): US\$ 1.3 million (or 1.6% of component)

- Water Connections to Low-Income Residents: One deep well, one small reservoir, extension of networks and connection of 6,400 inhabitants in low-income areas;

- Water Production: Restructuring of existing systems to guarantee supply for distribution of the above component;

- Sewerage: Installation of sewerage services to supply 3,000 inhabitants in the central zone of the city in priority areas; and

- Operational Improvements: Micro-metering, macro-metering, linking of existing systems, new equipment, and reinforcing of existing systems. The micro-metering sub-project will increase total metering from 35% of consumers to 95%.

## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULDetailed Description of Pilot Housing Sub-Project

1. Background. Annual population growth in Brazil is currently about 2.3% with the urban population growing at about 3.0% annually. Until 1986, the Banco Nacional de Habitação (BNH) was the primary source of finance for housing. A multitude of state agencies (COHAB's) were involved in on-lending operations from the BNH, and also in executing shelter sub-projects. In 1986, the Caixa Economica Federal (CEF) assumed BNH's role after it was abolished. As with the BNH, the CEF also relies on the compulsory FGTS (superannuation) contributions from workers' salaries (workers receive a 3% real interest on their savings) to finance its "popular housing" program. It has long been a basic premise in Brazil that high subsidies are required for low-income housing. As the cost of housing increased, the upper limits of qualifying family income were raised from a minimum of 3 (about US\$150) to 10 minimum salaries (about US\$500). Those who received units were thus receiving larger subsidies at the expense of those who did not get any. Because mortgage payments were indexed at a much lower rate than actual inflation, a large unpaid balance remained at the end of each loan and this, as well as bad debt amounts, was met out of the federal budget. Thus housing policy in Brazil has been plagued by huge implicit subsidies to a relatively few families. With recent stringency conditions imposed by the Federal government, both the CEF and the state agencies have had to seriously reduce their activities in the sub-sector as available funds became scarcer. In fact, in most states of Brazil formal housing delivery for low income populations is virtually paralysed. On the other hand, in addition to the existing deficit for the period 1985/90 estimated at 400,000 units, it is estimated that a further 360,000 units will be required for the period 1990/95 to accommodate incremental growth. Of this total of about 760,000 units, made up of existing deficit and demographic demand, about 50% would be required by families earning less than 5 minimum salaries. The bulk of these units are expected to be constructed by the informal sector.

2. A successful long term policy for housing finance must necessarily be linked to overall policy adjustments in the financial sector as a whole. This issue is being studied by the Finance, Trade and Industry Division (LAI/II) of the Brazil Department. The drastic cutback of available funding however, and severe demand for affordable housing, has placed a tremendous burden on state and municipal governments to respond in some way. Some municipalities have embarked on individual programs, often without a full assessment of the adverse financial impact on their own finances, of conventional housing solutions. At the same time, new opportunities have emerged: recent constitutional changes legitimize squatter's rights on land occupied over five years, and encourage the issuance of legal title, and consequently access to secured home construction loans, particularly for households already living in the "favelas". Other provisions under the Constitution provide new opportunities: new settlements can be planned and located in areas that do not constrain the future growth of

the cities and towns. The statutory requirements for each municipality with a population of 20,000 or more, are for the preparation of a "Plano Diretor" (land use plan). Targeted subsidies to the very poor could thus be used as incentives to guide growth, for example through the provision of affordable, minimally serviced land and the issuance of land titles. Beneficiary households can secure mortgages directly from a financing institution (such as BANRISUL or the CEF). Also some low-income households already have title to individual small lots, but lack access to credit, and are living in rented temporary accommodation. They too could participate with improved access to credit. Many low-income households could significantly improve their living standards with small credits to carry out simple improvements such as the addition of sanitation facilities.

4. Thus it was agreed to include a pilot component under the project, which could serve to explore and test alternatives, executed by appropriate shelter agencies, non-governmental agencies (NGO's), and municipalities. The main objective would be to seek replicable solutions that avoid some of the main problems which have historically plagued housing investments in Brazil, for example, a decapitalization in a high-inflation environment, the need for high subsidies, mismatching of solutions and beneficiaries, etc.. In addition, an objective under this component will be to introduce to the extent possible, sufficient policy, organizational and administrative reforms, in the State's major housing institution - the Companhia de Habitação de Estado de Rio Grande do Sul (COHAB-RS), on which the State government must eventually depend for a substantial contribution to their low-income housing program.

5. Component Cost and Description Housing Sub-projects under this component are estimated to cost about US\$7.8 million equivalent. Housing Loans will provide for the construction or improvement of approximately 3,100 units (25-50 m2) for families earning 3-5 minimum salaries. Also included are other loan options, such as home improvement loans for a "sanitation module" and simple loans for the purchase of materials only. The state will finance half of this cost of this component, with the Bank loan financing the other half. Beneficiary contribution will be through the land they own and their self-help in house construction (with technical assistance from special technical units in each municipality and consultants retained for the purpose by a "Task Force" in the State's Secretaria do Trabalho e Ação Social e Comunitaria (STASC). Housing sub-loans would also be on-lent at terms ranging from 5-15 years at the rate of interest prevailing in FUNDOPIMES at the time.

6. BANRISUL (and eventually other financial institutions such as the Caixa Economica Federal (CEF)), will be the Financial Agent for administering the housing loans, and will do so under a Housing Agency Agreement with BADESUL. BANRISUL's implementation, administrative and financial performance were reviewed by the mission and found to be satisfactory. BANRISUL has had about 20 year's experience in mortgage lending. It currently has an active portfolio of about 10,000 loans of a total value of US\$25 million and its delinquency rate is around 10%. BANRISUL's fees and charges for its agency role have been provisionally estimated at about 3.5% of mortgage amount. The cost of interest during construction where applicable, will be capitalised into the mortgage loan and be repaid over 15 years. This translates into about US\$500 for an average sized unit. BANRISUL's services would not include the preparation, certification,

registration of title, supervision of construction, for which other specialized agencies already exist, in addition to the special Task Force noted above.

7. During appraisal, the mission reviewed proposals by PIMES/BADESUL for implementation of this component, and discussed procedures and criteria for evaluation and selection of beneficiaries. As a minimum, these criteria will stipulate: (a) The target group will be between 3-5 minimum salaries; (b) the maximum size of unit to be financed will not exceed 50 m<sup>2</sup>; (c) monthly loan repayments must not exceed 30 % of monthly household income; and (d) beneficiaries must already possess registered title, or receive a written commitment from the municipality that such title will be granted to the beneficiary upon completion of construction. Agreement was reached during Negotiations that BADESUL would submit for Bank review and approval, the draft of a Financial Agency Agreement which details the terms and conditions under which a Financial Agency will operate and administer housing loans. Approval of the Agreement by the Bank, and a satisfactory appraisal (financial, technical, institutional and socio-economic aspects) of the first example of each "prototype" of alternative housing sub-project, will be a condition of Bank disbursement for this component.

8. For the State of Rio Grande do Sul, seeking affordable solutions for low-income housing is an urgent priority. To do so effectively, there is a need for policy and technical guidance to municipalities and other agencies involved in the development of such sub-projects. Agreement was reached during Negotiations, that as a Condition of Loan Effectiveness, the special "Task Force" be set up in the STASC, and be adequately staffed, equipped and accommodated to carry out its duties to provide such guidance. This unit which would maintain close contact with the Project Unit in BADESUL, would have the specific responsibility to (a) promote possible sub-projects; (b) provide policy orientation and technical assistance services (through the use of carefully selected experienced consultants) to agencies, Low Income Families, and groups or organizations thereof, including community development and legal advice; and (c) disseminate the experience of alternative successful solutions to all municipalities. In addition, the administrative, financial and technical capability of this task force would be strengthened through technical assistance and training for key staff, and for the study of a long-term State strategy for addressing low income needs. Terms of Reference for Technical assistance would be sent for prior review to the Bank.

9. Agreement was also reached during Negotiations (a) that the State would through STASC and BADESUL carry out not later than December 31, 1990, a management study, under terms of reference satisfactory to the Bank, of the organizational, financial, administrative and policy aspects of COHAB-RS's operations in order to improve and expand the State's housing programs for low-income families; and (b) on the monitoring and reporting requirements on the adequacy of Housing Loans and the execution of Housing Sub-projects, their benefits and main problems and the adequacy of the amounts allocated to such sub-projects and loans under the project.



## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULCommunit, Facilities Sub-ProjectsCreches/Child Care Centers (US\$9.8 million)

1. The main objectives of this component of PIMES will be to improve sector coverage by constructing, remodeling and rehabilitating child care centers in low income areas. A parallel objective will be to design a state policy for the child care sector, defining the distribution of functions between public agencies and non-governmental organizations (NGO's), types of services to be provided, and financial responsibilities. The project also intends to test different institutional arrangements for the delivery of child care services, through the cooperation between public and private entities in order to improve the sector's coverage of the existing demand. To facilitate the attainment of these objectives, the project will also include the provision of technical assistance and training to public and private agencies involved in the program, through the Institutional Development Component of PIMES.

2. Studies developed by state agencies show that there is a demand for child care centers in low income areas of Rio Grande do Sul of about 17,000 children in the target age group (0 to 6 years old). So far, the majority of agencies delivering these kinds of services are private ones. The public sector operates only 2.3% of existing units.

3. The project will finance a total of 144 units, including the construction of 77 new centers and rehabilitation and remodeling of 67 existing units. This network is expected to serve 11,050 low income children, covering about 85% of the existing demand for places in child care centers in poor urban areas of the State. The total cost of the project is US\$ 9.8 million, including US\$ 6.3 million for constructing 77 new units, US\$ 2.7 million for remodeling and rehabilitation of 67 existing centers, both including equipment costs, and US\$ 0.8 million for project design. These costs will be funded as follows:

	Percent	US\$ million
PIMES Sub-loan	45%	4.41
Municipal contribution	25%	2.45
State grant	30%	2.94

These costs do not include the acquisition of land for the new units, as sites would be provided by the municipality.

The implementation of this component will be in accordance with the implementation of PIMES, but will be completed in five years as follows:

Number of Units						
	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Construction	6	25	25	12	9	77
Remod./rehab.	10	16	19	20	8	73
TOTAL	16	41	44	32	17	150
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5. The annual costs of operation and maintenance of the child care centers financed by the project are estimated at US\$ 3.6 million. Municipalities and NGO's will be responsible for these costs through different institutional arrangements that include always beneficiary charges for at least 5% of operating costs. It is proposed that established local community organizations (NGOs) will play a greater role in the operation and maintenance of the facilities, to ensure that such facilities are well operated and fully utilized. Possible institutional arrangements regarding operational costs have been designed as follows:

For Municipal operated centers

Municipalities (95%) plus beneficiaries (5%) or  
municipalities (75%), NGO's (20%), beneficiaries (5%)

NGO operated centers

NGO's (95%) plus beneficiaries (5%) or  
NGO's (75%), municipality (20%), beneficiaries (5%)

6. Participation in this component will be open only to municipalities receiving other loans from FUNDOPIMES. The following selection criteria will be used for determining the priority among sub-borrowers:

- (a) the municipality already be a participant of the PIMES program;
- (b) receipt of a detailed plan of operating costs, and that these be within PIMES norms;
- (c) users of the Center be from low income areas not already served by another center;
- (d) the municipality to have demonstrated adequate arrangements for operating the facility (such as a participation agreement with an NGO); and
- (e) the municipality to retain title to any NGO operated center financed by the municipality.

7. The definition of the Plano Estadual de Atencao a Infancia, included in the Institutional Development component, will be preceded by two activities, namely: (a) Diagnosis of the sector, by expanding the preliminary survey that

was prepared by PIMES team at project appraisal; (b) Cadastre of NGO's and public agencies presently delivering child care services in Rio Grande do Sul. The elaboration of The Plano Estadual de Atencao a Infancia will be under the coordination of PIMES and the Secretarias de Educacao/do Trabalho e Acao Social who will appoint a taskforce responsible for the elaboration of the Plan which will include federal agencies, state agencies, municipalities and NGO's. The elaboration of the Plan is expected to require 6 months. The investment program will begin only in the final month of the Plan's elaboration.

#### Health Centers (US\$4.5 million)

8. The Health Center sub-component of PIMES is integrated with the investment program of Sistema Unificado e Descentralizado de Saude (SUDS), the State Government's program for the health sector. The project will improve the network of basic health units on the basis of Municipal Health Plans to be prepared at the local level which will aim to make investments in basic and specialized service units for areas where the deficit is particularly acute.

9. The total base cost of the component is US\$ 4.5 million will be funded as follows:

	Percent	US\$ million
Municipality	25%	1.1
State grant	75%	3.4

These costs do not include the acquisition of land for the new units, as sites would be provided by the municipality. The project would finance the construction and equipment costs of about 30 units, at an average cost of US\$150,000 each.

10. The units will be operated under SUDS norms which specify a municipal/state cost-sharing. Approximately 65% of the municipal share of operating costs will be underwritten by SUDS. This corresponds to less than 1% of the SUDS 1989 budget. Special selection criteria have been agreed as follows for participating municipalities:

- (a) Receipt of a Municipal Health Plan
- (b) Municipality to have a SUDS agreement
- (c) Municipality must have demonstrated that it has made adequate arrangements (including financial) for staffing, managing and operating the facility.

#### School Extensions (US\$4.5 million)

11. The capacity of municipal primary schools (grades 1 to 4) would be expanded by this component with additional classrooms, sanitary facilities, and equipment serving approximately 18,000 students. Under the project a total of 262 new classrooms in existing schools, including basic sanitary facilities and

equipment, would be constructed. Opportunity would be provided for experimenting new curricula on a trial basis, such as the "Open School" program.

12. The total base cost of the component is US\$4.5 million will be funded as follows:

	Percent	US\$ million
Municipality	25%	1.1
State grant	75%	3.4

13. The following selection criteria will be used for determining priorities among sub-borrowers:

- (a) Prior availability of land for expansion and technical feasibility of works;
- (b) Existence of low income target population in the areas to be served which must not already have a similar school;
- (c) The school is to be committed to the "Open Schools" program
- (d) Municipality must have demonstrated that it has made adequate arrangements (including financial) for staffing, managing and operating the facility.

## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULDescription of Other Infrastructure Components

1. In addition to the foregoing outlined in Annexes 3.1-3.4, the project includes other sub-components, from which eligible municipalities will select eligible sub-projects, as described below:

(a) Paving (US\$29.2 million). This sub-component includes local roads, minor bridge reconstruction, sidewalks, and related civil works (such as retaining walls, and road-related drainage works) where necessary. Readily available--materials, asphalt in some cases and cobblestones for the remainder, depending on the levels of traffic to be sustained and existing conditions--will be used. In the municipalities where adequate technical capacity exists, the Municipal Secretariat of Public Works (Secretaria Municipal de Obras Publicas), would be responsible for the design and supervision of the works. In the remaining cases the Secretariat of Works of Rio Grande do Sul (SDO), would assist with the administration of the works, along with the assistance of consultants for engineering and construction supervision. In all cases the works would be selected, financed, implemented and maintained in accordance with the policies and procedures as set out in the Operation Manuals of PIMES (See Annex 8).

(b) Street Lighting (US\$8.5 million). Under this sub-component, public lighting would be extended in low-income neighborhoods. Because of the special technical nature of the work, specialized contractors accredited to the State power company, The Companhia Estadual de Energia Electrica (CEEE) will be used, but will nevertheless be selected through procurement procedures consistent with those set out the SAR (Section 3, paragraphs 3.06-3.08).

(c) Drainage and/or Erosion Control (US\$14.6 million). This component would include the construction, and in some cases the rehabilitation, of drainage networks and related civil works, particularly in low-income areas. Lands subject to flooding and/or very steep slopes, routinely have been avoided by the formal sector for residential or other development, because of the high costs of site preparation; such land has, by default, become the first choice for low-income settlement. Urban settlement has both (a) increased the area of impermeable surface area and thus the volume of "run-off"; and (b) aggravated this problem as a result of the accumulation of uncollected solid waste, and other debris. Development on steep hillsides has also created severe erosion problems, and will require the construction of drainage channels, retaining walls and/or other slope stabilization measures. Similar conditions as noted above led to the disaster in the Metropolitan Region of Rio following the severe rains in February 1988 (for which Bank Loan 2975-BR, Rio Reconstruction Project, was made. No disruption of existing populations are envisaged under the proposed project. In isolated cases, where some resettlement may be necessary, the sub-borrower will prepare and submit (through BADESUL) a Plan for Resettlement,

acceptable to the Bank, prior to proceeding with any works. This will be a standard condition for all sub-components under the Project.

The implementation of this component will be carried out by either municipal state agencies, depending on their capacity, and will be in accordance with the policies and procedures as set out in the Operation Manuals of PIMES (Annex 8).

(d) Solid Waste Management (US\$5.5 million). This component would consist of the construction of sanitary land-fill sites, and the construction and installation of special facilities for the collection and disposal of hazardous waste, in various micro-regions of the State of Rio Grande do Sul. For the State of Rio Grande do Sul it is estimated that about 21.5% of urban households burned, buried, or simply discarded their garbage in vacant lots or in drainage systems. Inadequate attention is also given to the environmental aspects of disposing of hospital and other hazardous wastes, including its necessary separation from other waste. With a few exceptions, individual municipalities do not have the financial and institutional resources to select and assemble suitable sites, or construct, operate and maintain such facilities. As such, the State has to coordinate such efforts and assume direct responsibilities for certain functions. The State Secretariat of Works (SDO/OBRAS) and METROPLAN, for the Metropolitan Region of Porto Alegre, would be responsible for implementing this component and would coordinate the investments by municipalities in these sub-projects.

Prior to approving any investments in solid waste, BADESUL will ensure that such investments are in conformity with a "Plano Diretor" for the specific micro-region in question, and that management of solid waste services (policy, collection, transportation to disposal sites, cost recovery, etc.,) by participating municipalities is adequate, and will be improved at the same time. The cost for carrying out such studies are included in the Institutional Development component of the Project.

The carrying out of a technical, financial, institutional, economic and environmental appraisal, acceptable to the Bank would be a condition of disbursement for sub-projects under this component.

(e) Water Pollution Control-Rio dos Sinos Basin (US\$3.5 million).

This component would have as its primary objective to initiate a major program to de-pollute the Rio dos Sinos Basin, an area of about 4,000 square kilometers. Thirteen municipalities, which make up one of the states largest industrial concentrations, are directly dependant on surface water extraction from the River for their normal water supply requirements. Over the years however, increasing industrialization and urbanization, have aggravated the situation. Although nearly all communities located along the river, discharge raw sewage directly into the river, it is estimated that 70% of the total flow of pollutants originate from industry. Leather tanning and related activities are the most predominant. State legislation exists requiring industry to carry out secondary treatment prior to the discharge of waste; however, enforcement is difficult due to an absence of facilities, resources and an inadequate institutional framework to implement change. Unless further pollution is brought to a halt quickly, and recovery measures of the water resource

implemented, there is risk of major irreversible damage to the whole catchment basin of Rio dos Sinos.

The State government has legislated a special task force (COMITESINOS) to coordinate an investment program over 10 years to be jointly financed by the State, beneficiary municipalities, and private industry and external resources. The total cost of the project has been estimated at about US\$75 million. Of this, civil works (including collector networks, pumping stations and related infrastructure, and treatment stations, and special facilities for the secondary treatment of industrial waste) are estimated to cost US\$66.73 million, and the remainder for studies, project management and technical assistance. The project will finance the preparation of detailed studies and urgent civil works in a high priority stretch of the river, to allow follow-up works to continue at a later date (perhaps to be funded as a separate project). Draft terms of reference for the studies were discussed at negotiations and it was agreed that specialized consultants would be retained to prepare detailed terms of reference for the technical studies to be undertaken and make recommendations for related actions that can be initiated forthwith. In addition to engineering studies, specific studies are required in respect of the institutional and legal institutional arrangements relating to the longer-term management of the project.

The studies would address both physical and institutional issues including: a) an overview of adjacent land use and overall water resource dependence; b) protection of the water catchment area of the region; c) existing use and abuse of water resources; d) a cadastre and grading of industrial and non-industrial pollution sources; e) active and passive controls and policies; f) disaster preparedness; extension services and institutional support to municipalities; g) water resource monitoring and management; h) control of water-borne diseases; g) priority investments and a time-bound implementation schedule. Detailed environmental impact studies of the proposed investments, would also be prepared. The first phase would include 9 municipalities (Sapiranga, Campo Bom, Campo Bom/Canudos, Novo Hamburgo, Estancia Velha, Sao Leopoldo, Esteio/Sapucaia, Mathias Velho, Canoas). A preliminary study indicates that with appropriate cost recovery policies, the project is financially viable. In the meantime, the 9 beneficiary municipalities will already be able to plan and detail their some urgent portions of their respective sewerage collection and treatment proposals. These are budgeted under the sewerage sub-component (See Annex 3.2).

The component would be planned and coordinated by METROPLAN, and be implemented by CORSAN. During Negotiations, it was agreed that the carrying out of a technical, financial, institutional, economic and environmental appraisal, satisfactory to the Bank would be a condition of disbursement for sub-projects under this component and the sewerage related investments in the 9 municipalities noted above.

**BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL**

**Selection Criteria for Eligible Sub-Borrowers**

**CRITERIA FOR PARTICIPATION IN PIMES**

In order to participate in the program, all potential sub-borrowers must enter into a Participation Agreement with the State Government, which would among other things: (a) confirm their agreement with the objectives of the project; (b) confirm their agreement to comply with the guidelines, practices and procedures, including those in connection with procurement, accounting, monitoring, reporting, etc. as set out in the Operation Manuals of PIMES; and (c) permit their immediate participation in the training sub-component of the project.

**CRITERIA FOR THE SELECTION OF ELIGIBLE SUB-BORROWERS**

Eligible Sub-borrowers would be Municipalities, autonomous water companies (DAE, DAEB, DMAE, SAMAE, SANEP and SEMAE) and selected State agencies (such as CORSAN), which meet the following conditions:

- (i) have prepared an Investment Program satisfactory to BADESUL and the Bank;
- (ii) have the capacity to use the proposed Sub-loan funds and to maintain the amount and service of its total indebtedness within the borrowing limitations set forth under current Brazilian legislation (details in Annex 2, para.6); and
- (iii) have entered into a Participation Agreement with the State Government, satisfactory to the Bank.

In addition, municipalities have to meet the following extra conditions:

- (i) be included in the Technical Assistance Program; and
- (ii) have presented a Financial Action Plan (PGAF), satisfactory to BADESUL and the Bank, for the improvement of the collection of revenues (including, as and when applicable, betterment and service charges and urban real estate taxes), together with a schedule satisfactory to BADESUL and the Bank for the execution of its PGAF.

**Note:**

- (1) The proposed sub-projects of DMAE and CORSAN have already been appraised by the Bank. The appraisal was based on analysis of a 5-year Investment Plan for each, an assumption of the maintenance of tariffs which cover all costs, including debt service, satisfactory to the Bank and BADESUL, and in the case of CORSAN, the submission of formal evidence of compliance with the Financial Recuperation Plan for Fiscal 1988. The appraisal of the other MWCs would be done by BADESUL, satisfactory to the Bank. Monitoring indicators for the water companies were agreed during Negotiations as well as specific conditions for the autonomous water companies and CORSAN as set out in the Loan and Project Agreements, respectively.



BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL

Selection Criteria for Eligible Sub-Projects

The list of Sub-projects eligible for financing under PIMES is as follows:

**A. INSTITUTIONAL DEVELOPMENT**

(a) Technical Assistance: BADESUL and selected state agencies; (b) Technical Assistance for Municipalities; (c) Training program for BADESUL and selected state sector agencies; (d) Training program for municipalities.

**B. INFRASTRUCTURE**

**B.1 Municipal Infrastructure**

(a) Paving; (b) Street Lighting; (c) Community Facilities (Day-Care Centers, School Extensions, Health Centers).

**B.2 Sanitation and Environment**

(a) Water Supply; (b) Sewerage; (c) Solid Waste Management; (d) Rio Sinos Water Pollution Control; (e) Drainage and Erosion Control.

**B.3 Housing**

(a) Housing Construction Loans

**For Sub-Projects in Part A:**

(a) For Training, the first year's program will have previously been reviewed by the Bank and found satisfactory;

(b) For Technical Assistance, Model Terms of Reference will have been previously reviewed by the Bank and found satisfactory.

**For Sub-Projects under Part B:**

Each sub-project will:

- (a) be designed to primarily benefit low income beneficiaries;
- (b) demonstrate its technical feasibility through an appropriate technical evaluation approved by BADESUL;
- (c) demonstrate a satisfactory economic and financial performance as approved by BADESUL;
- (d) have a positive environmental impact.

Additional Eligibility Criteria for Water Supply and Sewerage Sub-projects

All Sub-projects shall comply with the following conditions:

- (a) Each Sub-project must have been included in the Sub-borrower's investment program approved by the Bank.
- (b) Sub-projects shall be the least-cost solution, determined in accordance with appropriate technical and financial standards.
- (c) Sub-projects not meeting these additional criteria shall be redesigned to lower acceptable standards or carried out in stages. If the Sub-project does not fulfill the criteria after it has been redesigned, it shall be eligible for Bank financing only if a satisfactory social and economic justification is furnished to the Bank.
- (d) Calculations of long-run average incremental costs for Sub-project acceptability and for least-cost analysis, shall use an annual discount rate equal to the opportunity cost of capital (10%) or another value agreed upon between the Borrower and the Bank.

Water supply Sub-projects to be carried out in cities with populations greater than 50,000 shall have average water rates equal to or higher than 75% of the long-run average incremental cost of providing services through a minimum diameter water connection.

Sewerage Sub-projects, or water supply Sub-projects to be carried out in cities with populations of less than 50,000 shall have average water (or average sewerage) rates equal to or higher than 60% of the long-run average incremental cost of providing services through a minimum diameter connection.

Where Sub-projects include the construction or expansion of dams, reservoirs or water flow control schemes, the following additional requirements must be met:

- (a) Execution of an environmental impact report acceptable to the Bank and the Borrower.
- (b) Execution of relocation studies, including detailed resettlement plans, satisfactory to the Bank and the Borrower.
- (c) Execution of safety studies, including specific action plans, satisfactory to the Bank and the Borrower.
- (d) Appointment of panel of independent safety and environmental experts, with terms of reference and qualifications and experience satisfactory to the Bank and the Borrower, to be retained until the completion of the Sub-project.

**Special Criteria for PARTIALLY GRANT FUNDED Community Facilities**

Because of the high demand for grant-financing, the limited resources available, and the need to ensure that the new facilities can be adequately operated and maintained, the following additional criteria will be applied to determine the priority of such eligible sub-projects:

**(1) Day-Care Centers**

- (a) Receipt of detailed plan of operating costs, and verification that these are within PIMES norms;
- (b) Users of the Center are to be from low income areas not already served by a similar center;
- (c) Municipality must have demonstrated that it has made adequate arrangements for operating the facility (such as through a "convenio" with an NGO); and
- (d) Municipality must retain the property title to any NGO operated center financed by the municipality.

**(2) School Extensions**

- (a) Prior availability of land for expansion and technical feasibility of works;
- (b) Existence of low income target population in the areas to be served which must not already have a similar school;
- (c) The school is to be committed to the "Open Schools" program
- (d) Municipality must have demonstrated that it has made adequate arrangements (including financial) for staffing, managing and operating the facility.

**(3) Health Centers**

- (a) Receipt of a Municipal Health Plan
- (b) Municipality to have a SUDS agreement
- (c) Municipality must have demonstrated that it has made adequate arrangements (including financial) for staffing, managing and operating the facility.

**MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Project Cost and Financing Plan  
(US\$ million equivalent)**

<b>PROJECT COST:</b> =====		<b>% of Base</b>
<b>A. INSTITUTIONAL DEVELOPMENT</b>	18.8	10.1%
	----	----
- Technical Assistance	11.9	6.4%
- Training	6.9	3.7%
<b>B. INFRASTRUCTURE</b>	167.9	89.9%
	-----	-----
<b>B.1 Municipal Infrastructure</b>	71.1	38.1%
	-----	-----
- Drainage works	14.6	7.8%
- Paving	29.2	15.6%
- Street lighting	8.5	4.6%
- Creches	9.8	5.2%
- School extensions	4.5	2.4%
- Health centers	4.5	2.4%
<b>B.2 Environmental Health Infrastructure</b>	89.0	47.7%
	-----	-----
- Water	32.5	17.4%
- Sewerage	18.6	10.0%
- System Improvements	28.9	15.5%
- Environmental pollution control	3.5	1.9%
- Solid Waste Collection/Treatment	5.5	2.9%
<b>B.3 Housing</b>	7.8	4.2%
	-----	-----
- Housing Construction Loans	7.8	4.2%
<b>BASE COST</b>	186.7	100.0%
	-----	-----
Physical Contingencies	18.7	10.0%
Price Contingencies	21.6	11.6%
<b>TOTAL PROJECT COST</b>	227.0	
	=====	
<b>FINANCING PLAN:</b> =====		
Proposed IBRD Loan	100.0	44.0%
State of Rio Grande do Sul	76.2	33.6%
Sub-borrowers	50.8	22.4%
<b>TOTAL</b>	227.0	100.0%
	=====	=====

NOTE: All project costs are shown including direct taxes, which amount to about 9.8%. Interest during construction would be approximately US\$18.0 million equivalent, and financed by the sub-borrowers.

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULEstimated Schedule of Disbursements  
(US\$ million)

IBRD Fiscal Year and Quarter ending -----	Disbursement in Quarter -----	Cumulative Amount -----	Cumulative Percentage -----
<b>FY1990</b> -----			
December 31, 1989	7.0 1/	7.0	7.0%
March 31, 1990	3.1	10.1	10.1%
June 30, 1990	2.5	12.6	12.6%
<b>FY1991</b> -----			
September 30, 1990	2.5	15.1	15.1%
December 31, 1990	2.5	17.6	17.6%
March 31, 1991	3.3	20.9	20.9%
June 30, 1991	3.3	24.2	24.2%
<b>FY1992</b> -----			
September 30, 1991	3.3	27.5	27.5%
December 31, 1991	3.3	30.8	30.8%
March 31, 1992	5.0	35.8	35.8%
June 30, 1992	5.0	40.8	40.8%
<b>FY1993</b> -----			
September 30, 1992	5.0	45.8	45.8%
December 31, 1992	5.0	50.8	50.8%
March 31, 1993	6.3	57.1	57.1%
June 30, 1993	6.3	63.4	63.4%
<b>FY1994</b> -----			
September 30, 1993	6.3	69.7	69.7%
December 31, 1993	6.3	76.0	76.0%
March 31, 1994	6.0	82.0	82.0%
June 30, 1994	6.0	88.0	88.0%
<b>FY1995</b> -----			
September 30, 1994	6.0	94.0	94.0%
December 31, 1994	6.0	100.0	100.0%

-----  
1/ Initial amount of US\$7 million to establish the Special Account

## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULImplementation Arrangements

1. During project preparation, discussions had focused on the need for an experienced executing agency with a proven track record to manage the project, and for an experienced financial intermediary to manage the urban development fund (FUNDOPIMES). During appraisal, agreement was reached on the choice of BADESUL-the Banco do Desenvolvimento do Estado do Sul S.A.(see annex 13 for details). BADESUL will have primary responsibility for management of the project, and for the operation, management and administration of FUNDOPIMES. Overall policy and direction of the PIMES program and FUNDOPIMES will be the responsibility of a Board of Directors-the "Conselho Diretor do FUNDOPIMES" (CD), with functions and responsibilities satisfactory to the Bank. Membership of the CD will include, among others, the State Secretaries of: Planning (SCP) who will preside over meetings of the CD; Interior and Works (SDO); and Labor and Social Actions (STASC). The CD will have adequate administrative and staff support.

2. The organizational structure of BADESUL has been modified to execute PIMES. To complement the three existing Directorates of "Planejamento", "Operacoes" and "Administrativo/Financeira", a new special Directorate has been created to manage PIMES - the "Area de Operacoes Sociais e Urbanas". This will be the Project Unit for the project. The Project Unit will include a small Monitoring and Evaluation Unit reporting to the Director, and in addition, two Operating Divisions focused on: (a) a Division for carrying out the institutional and financial appraisal of Sub-Borrowers and (b) a Division responsible for the appraisal of physical Sub-projects. The Director of the Project Unit will report to the President of BADESUL, and thus be the "ex-officio" Secretary to the CD of FUNDOPIMES. Day to day responsibility for management of the two Operating Divisions will rest with an experienced Chief Executive Officer who will be recruited from within the ranks of managerial staff of BADESUL.

3. During Negotiations, the key functions of the new Project Unit were agreed as follows:

(a) Monitoring and Evaluation Unit - This unit, reporting to the Director will be responsible for (i) performing the functions of a technical secretariat for PIMES and for preparing all technical papers to be processed by the administrative staff of the CD; (ii) overall monitoring and evaluation of project performance, and of the compliance by executing agencies with the objectives and "modus-operandi" of the project as set out in the Operation Manuals. Because of the special nature of the PIMES project and the importance that the state government places on its satisfactory performance, this unit would also (iii) monitor the performance and management of FUNDOPIMES (managed by BADESUL); (iv) ensure that timely and adequate budgetary appropriations are made and transferred to FUNDOPIMES; and (v) maintain high level contact with key state

government officials as necessary, for dealing immediately with special problems that may eventually arise.

(b) Division 1 "Divisao de Analise Institucional e Assistencia Tecnica" This division will be responsible for (i) appraising the debt capacity of sub-borrowers and the evaluation of their Financial Action Plans (PGAF's) for strengthening financial management and fiscal performance; (ii) evaluating the institutional and technical capacity of sub-borrowers and their requirements for training and technical assistance; and (iii) evaluating the performance of sub-borrowers in implementing the PGAF's previously agreed. The special needs for experienced public finance experts was emphasized and agreed.

(c) Division 2 "Divisao de Analise de Projectos Sociais/Urbanos" This division would (i) evaluate physical sub-projects after the satisfactory appraisal of sub-borrowers has been completed. Experienced technical staff (engineers, architects, sociologists) would be assigned to review sectoral investments; (ii) supervise construction of civil works to completion, although, day to day supervision would be the responsibility of state regional sector agencies. However BADESUL would also, as the primary executing agency, carry out regular periodic supervision, (through the use of consultants where necessary), to ensure "quality control" and adherence to technical guidelines as set out in the Operational Manuals.

(d) Other Directorates of BADESUL: as overall project implementation responsibility will rest with BADESUL, all other normal operating and support directorates of EADESUL will be fully integrated as necessary. These operations will include: (i) the management of FUNDOPIMES: BADESUL would handle both World Bank disbursements and state counterpart funds and the on-lending of these funds to eligible sub-borrowers and also the repayment of the sub-loans made; (ii) preparation and execution of legal documentation; (iii) review of procurement documents, and other such tasks normally related to on-lending operations.

4. Given the urgency of seeking affordable solutions for low-income housing, and the need for policy and technical guidance to municipalities and other agencies involved in the development of such sub-projects, agreement was reached during Negotiations that, as a Condition of Loan Effectiveness, a special "Task Force" would be set up in the STASC, and be adequately staffed, equipped and accommodated to carry out its duties (see annex 3.3). Agreement was also reached on its organization and staffing. The cost of maintaining such an unit will be a charge against the institutional development component of the project (see Annex 3.1). To further improve institutional capacity over the medium term, agreement was also reached during Negotiations that: (a) the State through STASC and BADESUL would complete a management study by December 31, 1990, of the organizational, financial, administrative and policy aspects of COHAB-RS's operations in order to improve and expand the State's housing programs for low-income families. This would be under terms of reference satisfactory to the Bank,

5. Prior to negotiations, BADESUL submitted a revised detailed plan for the organization, staffing (including numbers, skills, grades) and "modus-

operandi" for the implementation of the project. Agreement was reached on the timing for completing the recruitment of staff being assigned from other institutions, and on internal re-assignments. In this connection, the mission emphasized the necessity of not increasing excessively the size of the staff force, through a greater reliance on an extensive use of specialist consultant skills.

#### SUMMARY OF KEY STEPS FOR LAUNCHING PIMES

6. The PIMES project is expected to be formally launched immediately after Loan Signing. Key steps are as follows:

- Step 1. Start of advance promotion (already initiated)
- Step 2. Commencement of orientation program for project implementation staff. Release of promotional material including information on key dates for the release of key documents (Manuals)
- Step 3. Start of full-scale promotion  
First Participation Agreements signed.  
Municipalities receive Operational Manuals including PGAF and Diagnostic Manuals.  
Full-scale "Orientation Seminars" launched (one per week) throughout state.
- Step 4. The following PROCESS is initiated by each municipality:
- (a) Municipality assembles data for preparation of PGAF
  - (b) Municipality receives technical assistance from BADESUL or it appoints its own consultants (BADESUL will have standard Terms of Reference for this task). Municipal counterpart staff work jointly with consultants in the diagnostics of their financial and institutional situation and in the preparation of the PGAF. It is also envisaged that Consultants (on behalf of BADESUL) and BADESUL staff (Division 1) will also carry out their sub-borrower evaluation based on actual site visits where possible.
  - (c) BADESUL completes its financial and institutional evaluation of the municipality, and recommends specific conditions for sub-loans (operational improvements, financial targets, training, technical assistance requirements, etc.), and approves the municipality as eligible for a sub-loan and the limit thereof.
  - (d) The completed PGAF, an Investment Plan, and a request for a sub-loan is received by BADESUL.
  - (e) Municipal Sub-projects are evaluated by BADESUL
  - (f) BADESUL prepares and executes Sub-Loan Agreement with municipality. Sub-loans installment payments are released in stages based on satisfactory execution of works
  - (g) On completion of civil works,  
BADESUL releases final payment and the Municipality assumes responsibility for operation and maintenance of completed works..... PROCESS RESTARTS FOR YEAR TWO



## BRAZIL

MUNICIPAL DEVELOPMENT PROGRAM  
IN THE STATE OF RIO GRANDE DO SULOperation Manuals

The Operation Manuals (or simply "Manuals") are a crucial instrument for the execution of the project. They will set out the operating rules and procedures (including the terms and conditions governing Sub-loans) for implementing PIMES.

The Manuals are referred to in the Loan and Project Agreements, and provision has been made for their amendment from time to time, if so required by practical considerations, and then, only by prior agreement between the Borrower and the Bank.

The Manuals themselves will cover the following:

- (a) Glossary of Terms
- (b) Project objectives and description of PIMES
- (c) Organizational structure for project implementation
- (d) Step by Step procedures for participating in program
- (e) Criteria for participating in PIMES
- (f) Model Participation Agreement
- (g) Criteria for selection of Sub-Borrowers
- (h) Institutional and Financial Appraisal for Sub-Borrowers
- (i) Terms and Conditions for Sub-Loans
- (j) Model Sub-Loan Agreement (with to Technical Annex)
- (k) Policy and Recommendations for Cost Recovery
- (l) Criteria for Sub-Project selection
- (m) Procurement Guidelines (see also: Technical Annex)
- (n) Accounting, Auditing and Reporting Requirements
- (o) Monitoring (Agency, Key Indicators and Frequency)
- (p) Index (Quick Reference Guide) names, addresses and telephone/telex/fax contact for project information in the Project Unit (BADESUL), and each regional office.
- (q) List of types of eligible sub-projects

The Technical Annexes of the Manuals will include:

- (1) Diagnostic Manuals (institutional and Financial Action Plans)
- (2) Procurement (Model Bidding Documents, Model Terms of Reference for Consulting services for Technical Assistance and Training, etc.)
- (3) Model Standard Contracts for Civil Works
- (4) Check List (supporting documents required for sub-loan assumption in compliance with local laws)
- (5) Check List and Questionnaire for sub-projects appraisal
- (6) Accounting and Disbursement (Certification of Expenditures, supporting documentation etc.)

During Negotiations it was agreed that the various Manuals presented would be consolidated and modified in accordance with the Bank's comments and be finalized. This SET of 8 MANUALS would be the "Manuals" referred to in the Legal Documents for the Project.

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MANUAL	TITLE	AUDIENCE	CONTENTS
-----			
1	MANUAL DE ORIENTAÇÃO	All Parties	General Description of the PIMES program and the Bank-financed Project
2	DOCUMENTO BASICO	All Operational units, and some sections to all sub-borrowers	Defines the Basic Rules and "modus operandi" for the project
3	GUIA DE PROJETOS	All potential Sub-borrowers	Operational Procedures Selection Criteria Technical Requirements Model Forms, etc.
4	PLANO GLOBAL DE AÇÃO FINANCEIRA	All potential Municipal sub-borrowers	Guidelines of potential interventions for improving municipal finances and management
5	MODELOS DE INSTRUMENTOS DE LICITAÇÃO	All potential sub-borrowers	Rules of procurement, model documents, etc. technical references
6	DEFINIÇÃO DE PARAMETROS BASICOS (analise Fin.)	BADESUL and all its Consultants	Basic Data for comparative analysis of Mun. Finance
7	ROTEIRO PARA DIAGNOSTICO OPERACIONAL	BADESUL and all its Consultants	Terms of Reference for financial diagnostics of municip's finances.
8	FUNDOPIMES (Operating Manual)	Conselho Diretor and BADESUL	Manual of Operating Rules and Guidelines.

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**BRAZIL**  
**MUNICIPAL DEVELOPMENT PROJECT IN THE STATE OF RIO GRANDE DO SUL**  
**Monitoring Indicators**

Indicator -----	1990 ----	1991 ----	1992 ----	1993 ----	1994 ----
<b>Central and Regional Project</b>					
<b>Organizations (CPO &amp; RPOs)</b> -----					
<b>Operational and Institutional</b>					
No. Participating Municipals./State Total					
No. Sub-loan Applics. Received					
No. Applics. Evaluated/Applics. Received					
No. Applics. Approved/Applics. Evaluated					
Average Sub-bor. Appraisal Time (days)					
Total Sub-loan Processing Time (days)					
Average Sub-loan Size (US\$ equiv)					
<b>Municipalities</b> -----					
<b>Financial (US\$ equiv.)</b>					
Cur. Acct. Surplus with Grants (Savings)					
Cur. Acc. Surp. without Grants (Own Savings)					
Own Savings/ Total Revenues					
Tax Revenues/Total Revenues					
Debt Service/Total Revenues					
Personnel Expenditures/Total Expenditures					
<b>Operational/Institutional</b>					
No. Participating Institutions					
No. Proposals Received					
Proposal Preparation Time (days)					
No. Applics. Submitted/No. Proposals					
Average Application Size					
<b>Water Companies</b> -----					
<b>Financial</b>					
Operating Expenses/Operating Revenues					
(Op. Exps. less Depreciation)/Op. Revs.					
Debt/(Debt plus Equity)					
Debt Service/Pre-Tax Net Income					
(Op. Accts. Receivable times 365)/Op. Revs.					
<b>Operational/Institutional</b>					
No. Consumers/No. Employees					
No. Consumers/No. Connections					
Unaccounted-For Water/Production					
Sewerage Coverage Increase					
Water Coverage Increase					

**BRAZIL**  
**Municipal Development Project in the State of Rio Grande do Sul**  
**Monitoring Indicators**

<u>Indicator</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
------------------	-------------	-------------	-------------	-------------	-------------

**BADESUL as Operator of FUNDO PIMES**

-----  
 No. Disb. Requests Received/Month  
 Disbursement Processing Time (days)  
 No. Defaulting Sub-borrowers  
 No. Sub-borrowers with Overdue Payments  
 Average Period of Dilinquent Payments

**Training Agencies**

-----  
**Operational/Institutional**

No. Participating Institutions  
 No. Participating Municipalities  
 No. of Persons Trained  
     Instructors  
     Managerial  
     Technical/Professional  
     Other  
 No. of Events  
 Average Cost Per Person Per Course  
 Average Participants in Each Program

**NOTE:** Indicators for the water sector were agreed during Negotiations. Indicators for other (including ratios) were discussed during Negotiations and it was agreed that BADESUL would furnish to the Bank, a set of financial, economic, technical, environmental and social monitoring indicators satisfactory to the Bank by November 30, 1989.

## BRAZIL

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULUrban Development Fund - FUNDOPIMESKey Features of FUNDOPIMES

1. A key feature which distinguishes this project from previous urban development projects supported by the Bank in Brazil, except for the recently approved PEDU project (Ln 3100-BR), is the emphasis given to a newly created Urban Development Fund (FUNDOPIMES) and its institutionalization in Rio Grande do Sul. It has been designed to provide municipalities and other state agencies with an annual source of investment funds for municipal development sub-projects during implementation and also after the Bank loan has been disbursed. Simulations indicate that FUNDOPIMES could continue its lending after year 5 at an average rate similar to the first 5 years including an appropriation of up to 40% of net earnings for grants of 10% of project costs. It could thus become a permanent instrument for financing municipal development in the State. During the Bank loan disbursement period the FUNDOPIMES is funded from three sources:

- (a) Annual State appropriations as a permanent contribution to the capital of the FUNDOPIMES.
- (b) Re-deployment of sub-loan cash flow during the five-year Bank grace period.
- (c) Reinvestment of 60% of net income of the FUNDOPIMES, assuming an appropriation of 40% of net income to finance FUNDOPIMES grants.

2. Financial projections of FUNDOPIMES have been made using a simulation model developed on a Lotus 123 spreadsheet format specifically for the purposes of the analysis of FUNDOPIMES. It has been installed on micro-computers in BADESUL and has been used by the PIMES team in undertaking alternative simulations for the performance of the Fund. The model was, therefore, a key instrument in project design, particularly in pointing out the heavy financial cost in the long run of excessive grant financing under these programs. The model's user friendliness has ensured its ready use by the Rio Grande do Sul authorities. The results of the simulations of FUNDOPIMES under the conditions foreseen by the project are provided at the end of this annex. The main feature they demonstrate is that, even taking into account amortizing the World Bank loan, FUNDOPIMES will be able to provide sufficient funds after Bank disbursements have ceased to finance an annual program on a similar scale in the long run.

The Managers and Users of FUNDOPIMES

3. A ten member Governing Council (Conselho de Administração), five of whom are appointed by the Governor of Rio Grande do Sul and five by the association of municipalities of the State, will be responsible for approving the annual investment program, and reviewing its operating conditions. FUNDOPIMES was legally constituted by the State Law No. 8.899 of August 4, 1989.

4. Financing from FUNDOPIMES would be provided in accordance with the conditions and procedures established by the FUNDOPIMES Operation Manual (i.e. Project Manual No. 8 - see Annex 8). FUNDOPIMES credit terms and conditions, approved by BADESUL, are defined in State law 8.899 which also authorized the state to take the Bank loan and which specifically authorized the state Government to implement the PIMES program. FUNDOPIMES basic policies will be decreed by the Governor together with the first operating procedures issued by the Governing Council, approved by the Bank, and consistent with PIMES principles, will provide for prudent financial FUNDOPIMES performance. BADESUL will be ultimately responsible for approving the eligibility of sub-borrowers to take sub-loans and also authorize the eligibility of the sub-projects proposed for financing. BADESUL would also operate FUNDOPIMES through the accounts held by it in BANRISUL. BANRISUL will maintain individual computerized loan records, calculate and collect interest and capital payments, withhold state and municipal entitlement, and turn all proceeds over to the account of the FUNDOPIMES for a fee of 0.5% of amounts collected.

5. All municipalities in Rio Grande do Sul and sector agencies of the State Government will be able to apply to BADESUL to participate in funding from FUNDOPIMES. To be eligible for such funding, they will have to demonstrate the soundness of their financial planning (through the preparation of satisfactory Financial Action Plans - PGAFs) and commitment to the objectives of the PIMES Program as laid down in its Operation Manuals (Annex 8). Details of the eligibility criteria of sub-borrowers are given in Annex 4.

#### Operating Principles of FUNDOPIMES

6. The FUNDOPIMES Operation Manual (Project Manual No. 8) will also indicate explicitly the kind of sub-projects that can be financed through FUNDOPIMES and the conditions under which lending will be provided. Key on-lending terms and conditions will include the following:

- (a) All lending conditions (notably interest rate and grace periods) will be the same for all FUNDOPIMES lending and all sub-borrowers, except for maturities (see below) which are differentiated, but only according to sub-project, not according to sub-borrower;
- (b) The FUNDOPIMES will offer three credit lines of 5, 10 and 15 years including a one year grace period starting from the date of the first withdrawal;
- (c) All loans will be payable in monthly installments that include interest and equal payments of capital with the latter adjusted for inflation by the consumer price index (IPC) of the Brazilian Geographical and Statistical Foundation (IBGE);
- (d) The interest rate on all loans will be no less than 3 points above the FUNDOPIMES cost of borrowing, adjustable every six months. The initial interest rate will be 11% or 3.35% above the estimated 7.65% starting Bank interest rate.

- (e) All sub-borrowers will guarantee their loans by authorizing the state commercial bank BANRISUL to retain merchandize circulation (value added) tax (ICMS) transfers due them in the case of municipalities and user fees in the case of state agencies as collateral, a procedure used extensively in the PRAM project (Ln 2343-BR) and in the Santa Catarina Small Towns project (Ln 2623-BR) with practically zero delinquency; and
- (f) Any loan not complying with these terms must be specifically authorized by the governing council, the governor of the state and, until the Bank loan is repaid, by the Bank;

7. The FUNDOPIMES Operation Manual details which lines of credit will be available (5, 10, or 15 years) whose maturities are based upon the principle of shorter ones for sub-projects with more rapid cost recovery. In elaborating the proposals for the operating conditions of FUNDOPIMES, consideration was given to the possibility of charging different interest rates to different sub-borrowers (and also for different sub-projects) on equity grounds. This was explicitly ruled out, however, since it would provide considerable scope for arbitrary decision making, and uncertainty regarding the award of the would-be subsidies. The issue of how to benefit weaker or poorer municipalities with the resources of FUNDOPIMES is however, addressed through the project's Institutional and Human Resource Development package (details in Annex 3.1) which is designed to create conditions for those municipalities to be able to compete with others for FUNDOPIMES funding on a more nearly equal footing.

8. Other key operating principles to be stipulated in the PIMES operating manual, the Governor's enabling Decree and the Governing Council's first resolution include:

- (a) All sub-borrower repayments to FUNDOPIMES will be redeployed in the PIMES project during the Bank loan disbursement period;
- (b) Re-lending after the Bank disbursement period will be in accordance with FUNDOPIMES standard operating policies acceptable to the Bank;
- (c) FUNDOPIMES grants in any year will be limited to 40% of net income of the FUNDOPIMES as determined by generally accepted accounting principles applied in Brazil;
- (d) At least 40% of proposed loans must be awarded to municipalities;
- (e) No municipality may be awarded more than 10% of the total loan program nor more than 50% of a program component; and
- (f) All outstanding loan amounts will be adjusted for inflation using the Consumer Price Index (ICP) index of the IBGE.

## PART I- WORLD BANK AND UDF PROGRAM

				5 year total	10 year total	15 year total	20 year total
<b>A. World Bank loan to UDF-</b>							
1. Disbursement profile %				100%	100%	100%	100%
2. Loan, 15 years, 5 year grace				92,100,000	92,100,000	92,100,000	92,100,000
3. Interest rate				7.65%	7.65%	7.65%	7.65%
4. Commitment fee 0.75%				1,795,950	1,795,950	1,795,950	1,795,950
5. Annual payment				9,210,000	9,210,000	9,210,000	9,210,000
6. State exchange rate fee, 0.5% of loan				718,380	2,463,675	3,154,425	3,177,450
<b>B. Project parameters</b>							
1. Project costs, source of funds-							
State government:							
Grant 9.0%				18,838,636	18,838,636	18,838,636	18,838,636
UDF funding (loan) 24.6%				51,492,273	51,492,273	51,492,273	51,492,273
Municipality 33.6%				70,330,909	70,330,909	70,330,909	70,330,909
World Bank (loan) 22.4%				46,887,273	46,887,273	46,887,273	46,887,273
World Bank (loan) 44.0%				92,100,000	92,100,000	92,100,000	92,100,000
				100%	209,318,182	209,318,182	209,318,182
2. Project costs, municipal view-							
Own funds 22.4%				46,887,273	46,887,273	46,887,273	46,887,273
State grant 9.0%				18,838,636	18,838,636	18,838,636	18,838,636
UDF loan (see 3 below) * 68.6%				143,592,273	143,592,273	143,592,273	143,592,273
* 64.1% financed by Bank 100%				209,318,182	209,318,182	209,318,182	209,318,182
3. UDF loans by type of loan, 1 year grace-							
Type	Yrs	Grace	Int. wt.	Rel % total			
Type 1	5	1	11.00%	31% 21.3%	44,513,605	44,513,605	44,513,605
Type 2	10	1	11.00%	53% 36.4%	76,103,905	76,103,905	76,103,905
Type 3	15	1	11.00%	16% 11.0%	22,974,764	22,974,764	22,974,764
				100% 68.6%	143,592,273	143,592,273	143,592,273
4. UDF interest rates by type of loan							
	W Bank		UDF	UDF	UDF	UDF	
	int.	Margin	int.	int.	int.	int.	
Type 1	7.65%	3.35%	11.00%	11.00%	11.00%	11.00%	
Type 2	7.65%	3.35%	11.00%	11.00%	11.00%	11.00%	
Type 3	7.65%	3.35%	11.00%	11.00%	11.00%	11.00%	
5. UDF commitment fee on new loans				0.00%	0.00%	0.00%	0.00%



## MUNICIPAL DEVELOPMENT FUND IN RIO GRANDE DO SUL

## C. World Bank program cash flows

	5 year total	10 year total	15 year total	20 year total
<b>1. World Bank loan principal</b>				
Balance beginning of year				
Disbursed during year	92,100,000	92,100,000	92,100,000	92,100,000
Repaid during year	0	(46,050,000)	(92,100,000)	(92,100,000)
Balance end of year	92,100,000	46,050,000	0	0
<b>2. World bank finance charges-</b>				
Commitment fee	1,795,950	1,795,950	1,795,950	1,795,950
Interest at 7.65%	13,386,735	39,807,923	48,614,985	48,614,985
Total	15,182,685	41,603,873	50,410,935	50,410,935
<b>3. UDF capital contribution</b>				
Annual				
Accumulated	51,492,273	51,492,273	51,492,273	51,492,273
<b>4. UDF loan portfolio principal</b>				
Balance beginning of year	0	0	0	0
Disbursed during year	143,592,273	143,592,273	143,592,273	143,592,273
Repaid during year	(15,282,320)	(99,037,642)	(137,684,476)	(143,592,273)
Balance end of year	128,309,952	44,554,631	5,907,796	0
<b>5. UDF finance charges</b>				
New loan fee, 0.00% of new loans	0	0	0	0
Interest at 11.00%	28,353,078	75,267,375	87,535,367	88,847,719
Total	28,353,078	75,267,375	87,535,367	88,847,719

6. UDF expenses, start at 400.000,  
annual increase of 2.0% per year

D. Additional program from relending  
UDF cash flow surplus

	5 year total	10 year total	15 year total	20 year total
<b>1. UDF relending (Section M9)</b>				
	25,820,000	124,669,000	238,429,000	411,606,000
<b>2. New projects from UDF relending</b>				
X				
State-				
Grant	10% 3,972,308	19,179,846	36,681,385	63,324,000
UDF relending (D1 above)	65% 25,820,000	124,669,000	238,429,000	411,606,000
Total	75% 29,792,308	143,848,846	275,110,385	474,930,000
Municipality	25% 9,930,769	47,949,615	91,703,462	158,310,000
	100% 39,723,077	191,798,462	366,813,846	633,240,000

## MUNICIPAL DEVELOPMENT FUND IN RIO GRANDE DO SUL

D. Additional program from relending  
UDF cash flow surplus (continued)3. UDF loans by type of loan  
grace period 1 year

Type	Yrs	Grace	Int.	Rel wt.	% total	5 year total	10 year total	15 year total	20 year total
Type 1	5	1	11.00%	31%	20.2%	8,004,200	38,647,390	73,912,990	127,597,860
Type 2	10	1	11.00%	53%	34.5%	13,684,600	66,074,570	126,367,370	218,151,180
Type 3	15	1	11.00%	16%	10.4%	4,131,200	19,947,040	38,148,640	65,856,960
				100%	65.0%	25,820,000	124,669,000	238,429,000	411,606,000

## 4. UDF interest rates by type of loan-

	M Bank int.	Margin	UDF int. rate	UDF int. rate	UDF int. rate	UDF int. rate
Type 1	7.65%	3.35%	11.00%	11.00%	11.00%	11.00%
Type 2	7.65%	3.35%	11.00%	11.00%	11.00%	11.00%
Type 3	7.65%	3.35%	11.00%	11.00%	11.00%	11.00%

	5 year total	10 year total	15 year total	20 year total
Type 1	8,004,200	38,647,390	73,912,990	127,597,860
Type 2	13,684,600	66,074,570	126,367,370	218,151,180
Type 3	4,131,200	19,947,040	38,148,640	65,856,960
Total	25,820,000	124,669,000	238,429,000	411,606,000

5. Net state funds required from UDF  
relending of cash flow surplus  
Grant, 10% of project costs, D2 above

Grant, 10% of project costs, D2 above	3,972,308	19,179,846	36,681,385	63,324,000
Less, UDF grant from own cash flow, appears as a cash dividend of 40% of prior year's net income	(2,606,847)	(20,917,643)	(43,936,723)	(73,992,367)
UDF "dividend" (over) under grant	1,365,460	(1,737,797)	(7,255,338)	(10,668,367)
Average per year	273,092	(173,780)	(483,689)	(533,418)

## 6. UDF loan portfolio principal

Balance beginning of year				
Disbursed during year	25,820,000	124,669,000	238,429,000	411,606,000
Repaid during year	(277,306)	(31,166,796)	(114,928,095)	(232,313,314)
Balance end of year	25,542,694	93,502,204	123,500,905	179,292,686

## 7. UDF finance charges-

New loan fee, 0.00% of new loans	0	0	0	0
Interest at 11.00%	2,776,658	36,045,807	96,909,920	179,696,459
Total	2,776,658	36,045,807	96,909,920	179,696,459

## MUNICIPAL DEVELOPMENT FUND IN RIO GRANDE DO SUL

## PART II- CONDENSED FINANCIAL STATEMENTS

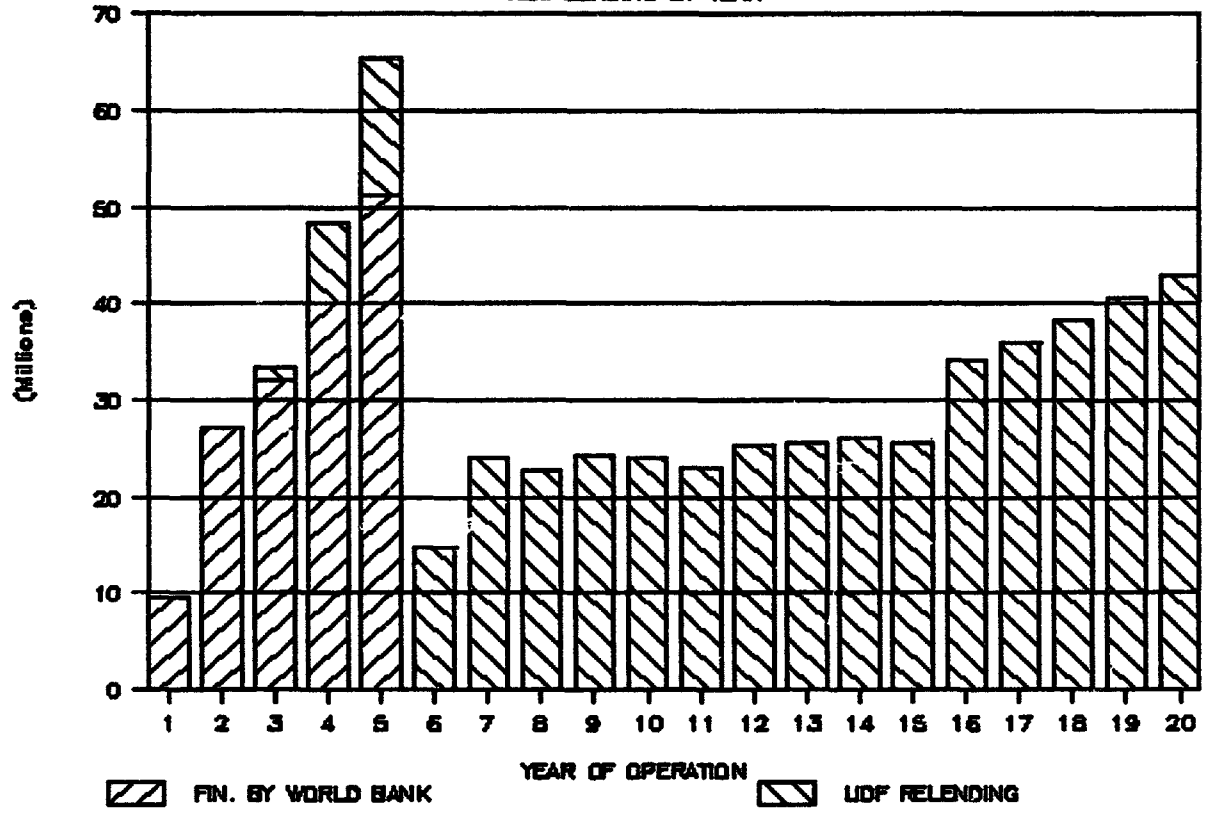
E. Condensed balance sheet	End of 5 years	End of 10 years	End of 15 years	End of 20 years
<b>Assets:</b>				
Cash	188,152	602,290	361,796	666,055
Loan portfolio, World Bank program	128,309,952	44,554,631	5,907,796	0
Loan portfolio, UDF relending	25,542,694	93,502,204	123,500,905	179,292,686
	-----	-----	-----	-----
	154,040,799	138,659,124	129,770,498	179,958,741
	=====	=====	=====	=====
<b>Liabilities, World Bank loan</b>	92,100,000	46,050,000	0	0
<b>Net worth:</b>	-----	-----	-----	-----
Capital, World Bank program	51,492,273	51,492,273	51,492,273	51,492,273
Retained earnings-	-----	-----	-----	-----
Accumulated prior years	0	0	0	0
Dividend paid to state government	(2,606,847)	(20,917,643)	(43,936,723)	(73,992,367)
Current year's earnings	13,055,373	62,034,494	122,214,948	202,458,835
	-----	-----	-----	-----
	10,448,526	41,116,852	78,278,225	128,466,468
	-----	-----	-----	-----
	61,940,799	92,609,124	129,770,498	179,958,741
	-----	-----	-----	-----
	154,040,799	138,659,124	129,770,498	179,958,741
	=====	=====	=====	=====
<b>F. Condensed income statement</b>				
<b>Income:</b>				
Interest from UDF portfolio-				
World Bank program	28,353,078	75,267,375	87,535,367	88,847,719
UDF relending	2,776,658	36,045,807	96,909,920	179,696,459
	-----	-----	-----	-----
	31,129,736	111,313,182	184,445,287	268,544,178
	-----	-----	-----	-----
UDF new loan fee-				
World Bank program	0	0	0	0
UDF relending	0	0	0	0
	-----	-----	-----	-----
	0	0	0	0
	-----	-----	-----	-----
<b>Total income</b>	31,129,736	111,313,182	184,445,287	268,544,178
<b>Costs and expenses:</b>				
Interest expense, World Bank	13,386,735	39,807,923	48,614,985	48,614,985
Commitment fee, World Bank	1,795,950	1,795,950	1,795,950	1,795,950
State exchange risk fee at 0.5%	718,380	2,463,675	3,154,425	3,177,450
BANESTADO fee, 0.5% of collections	91,681	831,251	1,747,612	2,778,010
UDF expenses	2,081,616	4,379,888	6,917,367	9,718,948
	-----	-----	-----	-----
<b>Total expenses</b>	18,074,362	49,278,687	62,230,339	66,085,343
	-----	-----	-----	-----
<b>Net income (loss) for the year</b>	13,055,373	62,034,494	122,214,948	202,458,835
Retained earnings, beginning of year	0	0	0	0
Dividend paid to state government	(2,606,847)	(20,917,643)	(43,936,723)	(73,992,367)
	-----	-----	-----	-----
<b>Retained earnings, end of year</b>	10,448,526	41,116,852	78,278,225	128,466,468
	=====	=====	=====	=====

## MUNICIPAL DEVELOPMENT FUND IN RIO GRANDE DO SUL

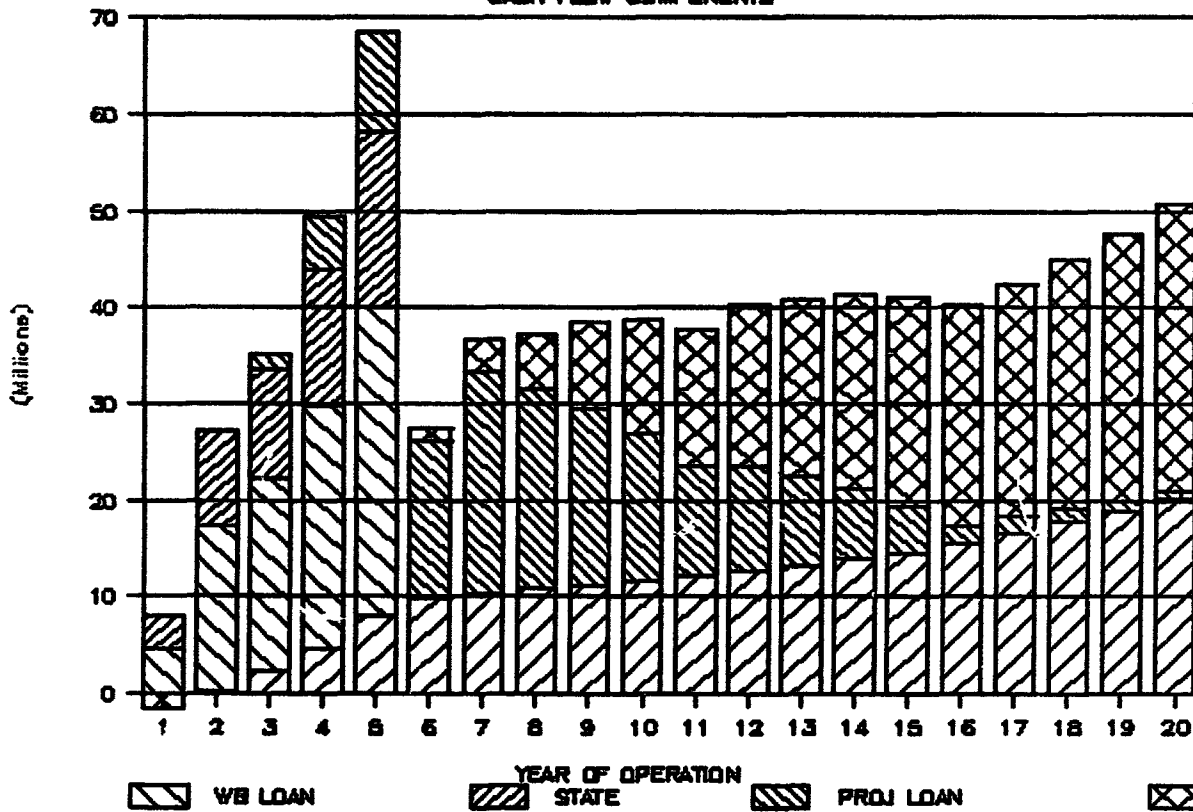
	5 year total	10 year total	15 year total	20 year total
	-----	-----	-----	-----
<b>6. Statement of source and use of funds</b>				
<b>Sources-</b>				
Income (loss) from operations	13,055,373	62,034,494	122,214,948	202,458,835
Received from World Bank loan	92,100,000	92,100,000	92,100,000	92,100,000
State funding of UDF capital	51,492,273	51,492,273	51,492,273	51,492,273
Repayment municipal loans-				
World Bank program	15,282,320	99,037,642	137,684,476	143,592,273
UDF relending	277,306	31,166,796	114,928,095	232,313,314
	15,559,626	130,204,438	252,612,571	375,905,587
<b>Total sources</b>	<b>172,207,272</b>	<b>335,831,205</b>	<b>518,419,792</b>	<b>721,956,695</b>
<b>Uses-</b>				
UDF new municipal loans-				
World Bank program	143,592,273	143,592,273	143,592,273	143,592,273
UDF relending	25,820,000	124,669,000	238,429,000	411,606,000
	169,412,273	268,261,273	382,021,273	555,198,273
Repayment World Bank loan	0	46,050,000	92,100,000	92,100,000
Dividend to state government	2,606,847	20,917,643	43,936,723	73,992,367
<b>Total uses</b>	<b>172,019,120</b>	<b>335,228,915</b>	<b>518,057,995</b>	<b>721,290,639</b>
Increase (decrease) in cash during year	188,152	602,290	361,796	666,055
Cash balance, beginning of year	0	0	0	0
Cash balance, end of year	188,152	602,290	361,796	666,055
	=====	=====	=====	=====

# URBAN DEVELOPMENT FUND

NEW LENDING BY YEAR



### URBAN DEVELOPMENT FUND CASH FLOW COMPONENTS

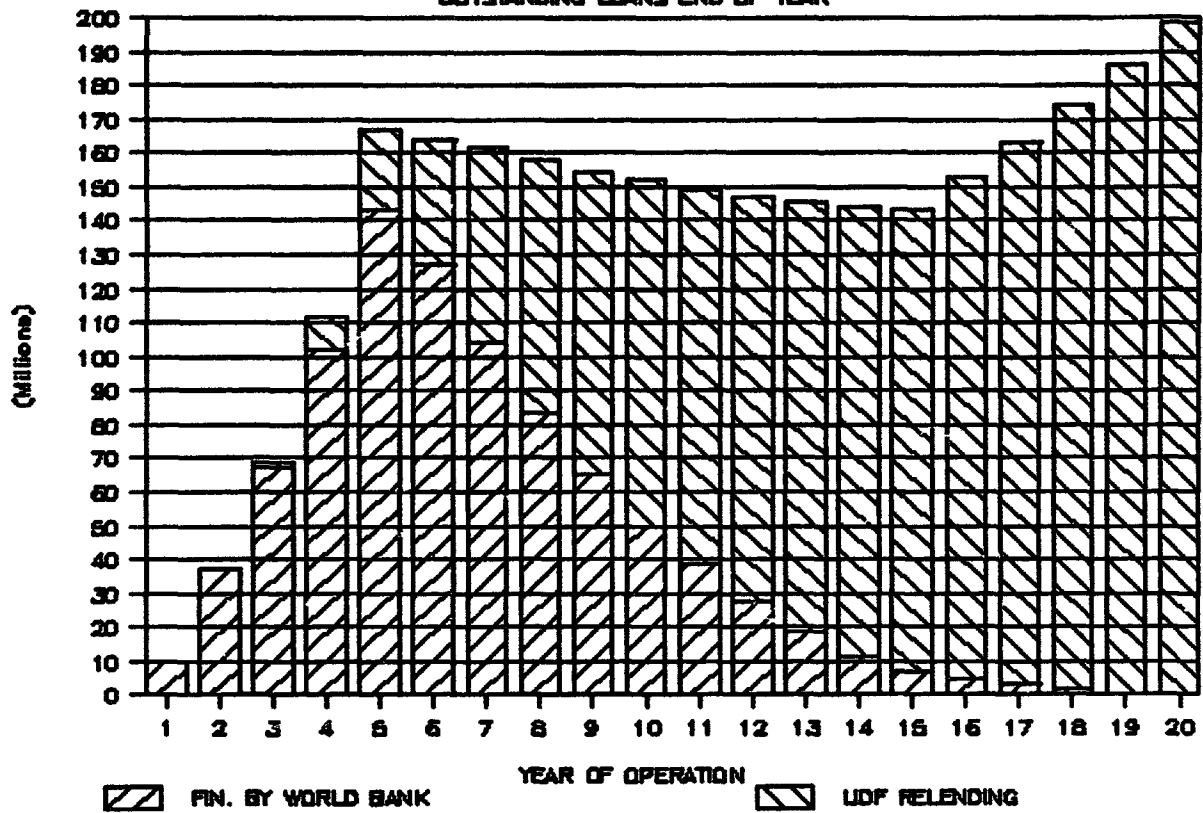


IE

Income

## URBAN DEVELOPMENT FUND

OUTSTANDING LOANS END OF YEAR



## BRAZIL

ANNEX 11

MUNICIPAL DEVELOPMENT PROJECT  
RIO GRANDE DO SUL

## Eligible Sub-Projects and Cost Recovery Policy

SUB-PROJECTS	SIZE	ONLENDING TERMS			COST RECOVERY		MECHANISMS			
		Percent of Project	MAXIMUM Percent SP-COST Financed	Term (yrs)	Grace Period	MINIMUM Percent SUBLOAN Recov'd	Percent SP-COST Recov'd	Capital Cost	Operating Costs	Notes
<b>INST. DEVELOPMENT:</b>	10.1									
<b>DIRECT REVENUE EARNING</b>	3.0									
Technical Assistance	3.0	75	n.a.	n.a.		100	75	Cost Shrng.	n.a.	
<b>INDIRECT REV. EARNING</b>	7.1									
Training	4.0	100	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.	/2
Technical Assistance	3.1	100	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.	
<b>INFRASTRUCTURE:</b>	89.9									
<b>DIRECT REVENUE EARNING</b>	47.9									
System Improv. W/S	15.5	75	5	1		100	100	Wat.Tariffs	Wat.Tariffs	/1
Water Supply	17.4	75	10/15	1		100	100	Wat.Tariffs	Wat.Tariffs	
Sewerage	10.0	75	10	1		100	100	Sew.Tariffs	Sew.Tariffs	
Rio Sinco Polut.Contrl	1.9	75	10	1		100	75	Cost Shrng.	User Fees	/2
Solid&Tox.Waste Mgmt.	3.0	75	10	1		100	75	Cost Shrng.	User Fees	
<b>INDIRECT REV. EARNING</b>	27.8									
Road Paving/sidewalks	18.5	75	5	1		100	100	Betterment	Property	/3
Drainage/Erosion C'trl	4.7	75	5	1		100	100	Levies	Taxes and	
Street Lighting	4.6	75	5	1		100	100		Gen.Revenues	
<b>MORTGAGES</b>	4.2									
Core Housing Loans		75	15	0		100	60	Monthly Repayments(P+I)		
Materials loans		100	5	0		100				
<b>NON-REVENUE EARNING</b>	10.1									
Day Care Centers	5.3	n.a.	n.a.			100	n.a.	Cost Shrng.		/3
School Extensions	2.4	n.a.	n.a.			100	n.a.	Cost Shrng.		
Health Centers	2.4	n.a.	n.a.			100	n.a.	Cost Shrng.		

NOTES: /1 See Annex 18. Up to 20% of Component (max.US\$14.0m) at terms between 10/15yr  
/2 Grants not to exceed 15% of total Sub-loans for year may be made against Community Development Sub-projects, Regional Environmental Sub-projects, and Technical Assistance/Training. See Section 3.03 of Loan Agreement.  
/3 Indirect Cost Recovery includes property tax and general municipal revenues.



## BRAZIL

MUNICIPAL DEVELOPMENT PROGRAM  
IN THE STATE OF RIO GRANDE DO SUL

The Executing Agency: BADESUL

Organization and Responsibilities

1. The Banco de Desenvolvimento do Estado do Rio Grande do Sul (BADESUL) was created with State law #6605 in 1973 and began operations in 1975 as a mixed (public/private) capital corporation. The bank is owned 99% by the State, which mandates its lending priorities. It has a management structure typical of most Brazilian state-owned enterprises, consisting of an administrative and a financial council, and a Board of Directors (see Organization Chart on page 6 of this Annex). The banking sector in the State is coordinated by the Junta de Coordenacao Financeira do Estado do Rio Grande do Sul.

2. As a development bank, BADESUL provides both financial and technical assistance to its borrowers. Loans, mainly with long-term repayment periods, are made out of the Bank's own capital or on-lent from the proceeds of loans from mainly local and international banks. Borrowers are municipalities, government institutions, private corporations, and other public and private organizations. BADESUL also provides bank guarantees for projects, consultant work and other investments. It does not have the responsibilities or functions of a commercial bank, nor a network of branches for collecting deposits.

Operations

3. BADESUL's loans fall into two main categories: independent projects submitted by borrowers or identified by BADESUL staff; and pre-programmed investments which form part of a specific sectoral development fund or program. Loans in the first category are made to all sectors, and are largely to private companies. The second category, a major part of BADESUL's operations, consists of loans made through the four development programs managed by BADESUL and which provide support to the agriculture sector (accounting for much of the State's GDP): agricultural reform, small-scale rural development, grain storage, livestock joint-ventures. A fifth, a social investment fund, also provides programmed loans, mainly to municipalities and public sector service agencies (such as water supply and public transport companies). BADESUL has received funds from the World Bank for the Second Urban Transport Project (Ln. 1839-BR), for the Fourth Urban Transport Project (Ln. 2822-BR), from the Banco Nacional de Desenvolvimento Economico e Social (BNDES) and the Caixa Economica Federal (CEF). Thus, BADESUL has accumulated significant experience in operating and managing development programs. The PIMES program would consolidate BADESUL's lending in the urban sector, and its management of FUNDOPIMES is intended to be the centerpiece of the State's strategy for transforming BADESUL into the primary source for urban lending in the state.

4. As of end 1988, BADESUL had a staff of 188 employees, about half of whom were professional level and the other half support staff, all located at the Bank's office in Porto Alegre. The bank has three major departments: operations, administration/finance and planning, however in anticipation of this project,

the organizational structure of BADESUL is currently being reorganized to undertake the various functions and responsibilities assigned to it for this project. This structure is described in greater detail in the section outlining the implementation arrangements for the project (Annex 7). Little additional staffing is foreseen, so that exaggerated growth of the payroll will be avoided. Agreement was reached at Negotiations on the staffing of BADESUL's Project Unit, which will emphasize the efficient re-deployment of existing staff and the reassignment of staff from other state agencies so as to avoid overall increases of staffing levels. It has been estimated that in total about 20 additional staff members will be required, principally to increase capacity in those areas likely to experience increased demand: analysts in public finance and accounting (7 positions); technical specialists in (municipal) sub-project appraisal (1 urban planner, 2 architects, 6 engineers); other skills (2 economists, 1 sociologist and 1 unspecified). In addition, because of seasonal demand and the specialization necessary, especially in relation to financial appraisals of municipalities, additional consulting services will be retained as required.

5. Because of the constraints facing BADESUL's major funding sources (CEF, BNDES), its lending patterns have fluctuated. During the first half of 1989 BADESUL lent about US\$56 million equivalent, distributed among 1,387 projects. Roughly 75% of the loans went to small-scale agricultural development, representing just 8% of total value, while 88% of the money lent by the bank went to a smaller number (23% of total loans) in industrial sector, in particular metallurgy, pulp and paper, chemicals and food processing. The remainder was lent for projects in the service sector and urban infrastructure. Roughly half the value of loans were lent to the public sector and half to private firms. About 9% of loans, representing 70% of the value of the loans, were lent in the capital of the State, Porto Alegre, with other large cities next in line. Large firms received 83% of loan proceeds, however nearly 95% of the loans were made to small companies. Most loans are either investment loans, or a combination investment and working capital. BADESUL lends a very small portion of its funds for working capital alone.

#### Finances

5 BADESUL's operating revenues for 1988 were US\$420.1 million, 17% higher than 1987 results of US\$347.7 million. Revenues for 1989 are forecast to be on the order of US\$450 million. Revenues are derived mainly from the bank's lending portfolio, with roughly half of revenues from private sector loans and half from the public sector. Profits during 1988, although positive, were substantially lower than 1987 as a result of higher on-lending expenses, mainly caused by dramatically increasing inflation during the year. The ratio of profits and expenses per employee, however, has remained healthy, as BADESUL has trimmed its staff over the period.

6. The State government has announced its plans to add an equity capital injection of US\$12 million equivalent for fiscal 1990, enabling budgeted lending for that year to increase, and bolstering the equity position of the bank.

**BADESUL**  
**Sources and Uses of Funds (1987-1989)**  
**(In current US\$ millions)**  
**TABLE 1.**

	1987	%	1988	%	1989 /1	%
	----	----	----	----	----	----
<b>Sources:</b>						
Time Deposits	45.5	19.2%	49.6	22.3%	57.1	22.2%
Central Bank	12.8	5.4%	12.3	5.5%	9.2	3.6%
BNDES	91.4	39.6%	97.9	43.9%	111.1	43.2%
CEF (BNH)	10.9	4.6%	8.0	3.6%	9.1	3.5%
Interbank Credits	14.5	6.1%	9.0	4.0%	7.0	2.7%
FINAME	37.1	15.7%	29.9	13.4%	33.6	13.1%
FINEP	0.5	0.2%	0.6	0.3%	0.6	0.2%
Other Institutions	0.9	0.4%	1.2	0.6%	1.6	0.6%
<b>Total Domestic Sources</b>	<b>213.7</b>	<b>90.3%</b>	<b>208.5</b>	<b>93.5%</b>	<b>229.3</b>	<b>89.1%</b>
Foreign Sources	7.0	3.0%	7.1	3.2%	7.9	3.1%
<b>Total Capitalization</b>	<b>220.7</b>	<b>93.3%</b>	<b>215.6</b>	<b>96.7%</b>	<b>237.2</b>	<b>92.2%</b>
Own Resources	16.0	6.7%	7.3	3.3%	20.2	7.6%
<b>Total Sources</b>	<b>226.6</b>	<b>100.0%</b>	<b>222.9</b>	<b>100.0%</b>	<b>257.4</b>	<b>100.0%</b>
<b>Uses:</b>						
<b>Lending:</b>						
Public Sector	96.3	40.7%	91.0	40.8%	113.4	44.1%
Private Sector	130.8	55.8%	122.7	55.1%	134.2	52.1%
Rural Sector	6.8	2.9%	8.0	3.6%	8.9	3.4%
<b>Total Lending</b>	<b>233.9</b>	<b>98.6%</b>	<b>221.7</b>	<b>99.5%</b>	<b>256.5</b>	<b>99.7%</b>
Guarantees	2.8	1.2%	1.2	0.5%	0.9	0.3%
Directed Credit	0.1	0.0%	0.0	0.0%	0.0	0.0%
<b>Total Uses</b>	<b>236.6</b>	<b>100.0%</b>	<b>222.9</b>	<b>100.0%</b>	<b>257.4</b>	<b>100.0%</b>

1/ Estimated based on results for June, 1989.

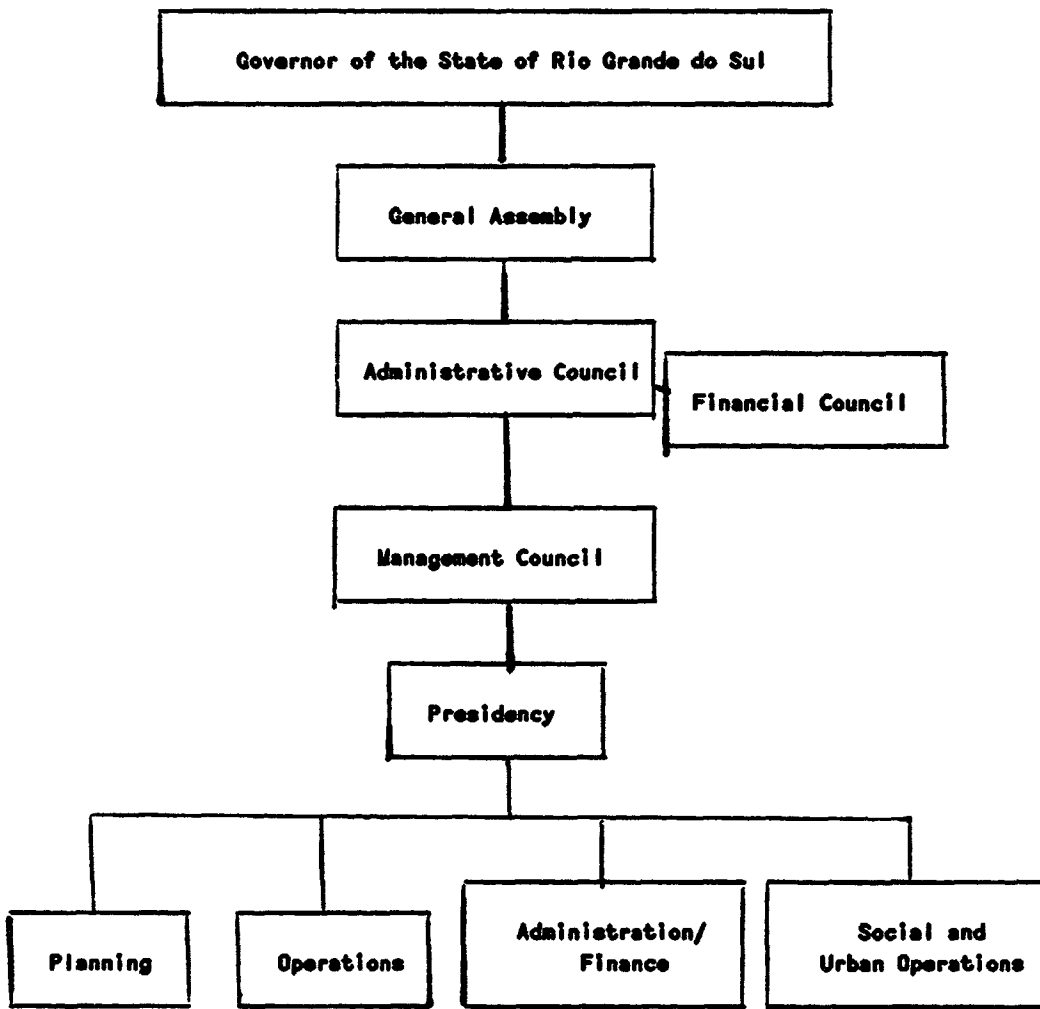
**BADESUL**  
**Income Statements (1986-1988)**  
**in current US\$ millions**  
**TABLE 2.**

	1986	%	1987	%	1988	%
<b>Revenues:</b>	120.7	100.0%	347.7	100.0%	420.1	100.0%
<b>From Lending</b>	104.5	86.6%	331.5	95.4%	407.0	96.9%
Private Sector	43.0	35.6%	166.2	47.8%	207.6	49.4%
Public Sector	56.6	46.9%	160.8	46.2%	199.5	47.5%
Other	4.9	4.1%	4.5	1.3%	5.0	1.2%
<b>Other Revenues</b>	16.2	13.4%	16.2	4.6%	13.0	3.1%
<b>Expenses:</b>	106.2	88.0%	305.0	87.7%	358.2	85.3%
Time Deposits	32.8	27.2%	87.4	25.1%	83.6	19.9%
Onlending	67.8	56.2%	211.1	60.7%	268.2	63.8%
Administrative	4.8	4.0%	6.1	1.8%	4.3	1.0%
Other	0.8	0.7%	0.5	0.1%	2.0	0.5%
<b>Operating Result</b>	14.5	12.0%	42.7	12.3%	61.9	14.7%
<b>Net Non-Operating Income</b>	0.1	0.1%	0.0	0.0%	(0.5)	-0.1%
<b>Monetary Corrections</b>	13.1	10.9%	24.9	7.1%	56.8	13.5%
<b>Result Before Tax</b>	1.4	1.1%	17.8	5.1%	5.1	1.2%
<b>Income Tax</b>	0.7	0.6%	1.1	0.3%	2.6	0.6%
<b>Net Profit</b>	0.7	0.6%	16.8	4.8%	2.5	0.6%

**BADESUL**  
**Balance Sheets (1986-1988)**  
**in current US\$ millions**  
**TABLE 3.**

	1986	%	1987	%	1988	%
<b>ASSETS</b>	<b>240.9</b>	<b>100.0%</b>	<b>239.1</b>	<b>100.0%</b>	<b>234.2</b>	<b>100.0%</b>
<b>Current Assets</b>	<b>124.3</b>	<b>51.6%</b>	<b>93.7</b>	<b>39.2%</b>	<b>102.0</b>	<b>43.5%</b>
Cash	0.7	0.3%	0.2	0.1%	0.2	0.1%
Private Sector Credit	37.9	15.7%	24.5	10.3%	21.1	9.0%
Public Sector Credit	78.4	32.6%	65.3	27.3%	69.3	29.6%
Other Applications	7.3	3.0%	3.8	1.6%	11.4	4.9%
<b>Long-Term Assets</b>	<b>115.2</b>	<b>47.8%</b>	<b>144.1</b>	<b>60.3%</b>	<b>130.7</b>	<b>55.6%</b>
Private Sector Credit	75.6	31.4%	109.4	45.8%	101.6	43.4%
Public Sector Credit	35.7	14.8%	31.0	13.0%	21.8	9.3%
Other Applications	3.9	1.6%	4.7	2.0%	7.3	3.1%
<b>Permanent Assets</b>	<b>1.5</b>	<b>0.6%</b>	<b>1.3</b>	<b>0.5%</b>	<b>1.5</b>	<b>0.6%</b>
Investments	0.1	0.0%	0.1	0.0%	0.1	0.0%
Property & Equipment	1.4	0.6%	1.2	0.5%	1.4	0.6%
<b>LIABILITIES &amp; EQUITY</b>	<b>240.9</b>	<b>100.0%</b>	<b>239.1</b>	<b>100.0%</b>	<b>234.2</b>	<b>100.0%</b>
<b>Current Liabilities</b>	<b>108.2</b>	<b>44.9%</b>	<b>84.8</b>	<b>35.4%</b>	<b>83.2</b>	<b>35.5%</b>
Deposits	64.9	26.9%	45.6	19.1%	49.6	21.2%
On-lending Obligations	42.1	17.5%	25.6	10.7%	26.3	11.2%
Other Obligations	1.2	0.5%	2.6	1.1%	7.3	3.1%
<b>Long-Term Liabilities</b>	<b>116.3</b>	<b>48.3%</b>	<b>139.7</b>	<b>58.0%</b>	<b>135.4</b>	<b>57.8%</b>
Local Currency	109.8	45.6%	132.4	55.4%	129.1	55.1%
Foreign Currency	6.4	2.7%	6.3	2.6%	6.3	2.7%
<b>Equity</b>	<b>16.5</b>	<b>6.8%</b>	<b>15.7</b>	<b>6.6%</b>	<b>15.6</b>	<b>6.7%</b>
<b>Current Ratio</b>	<b>1.1</b>		<b>1.1</b>		<b>1.2</b>	

**BADESUL  
Organization Chart**



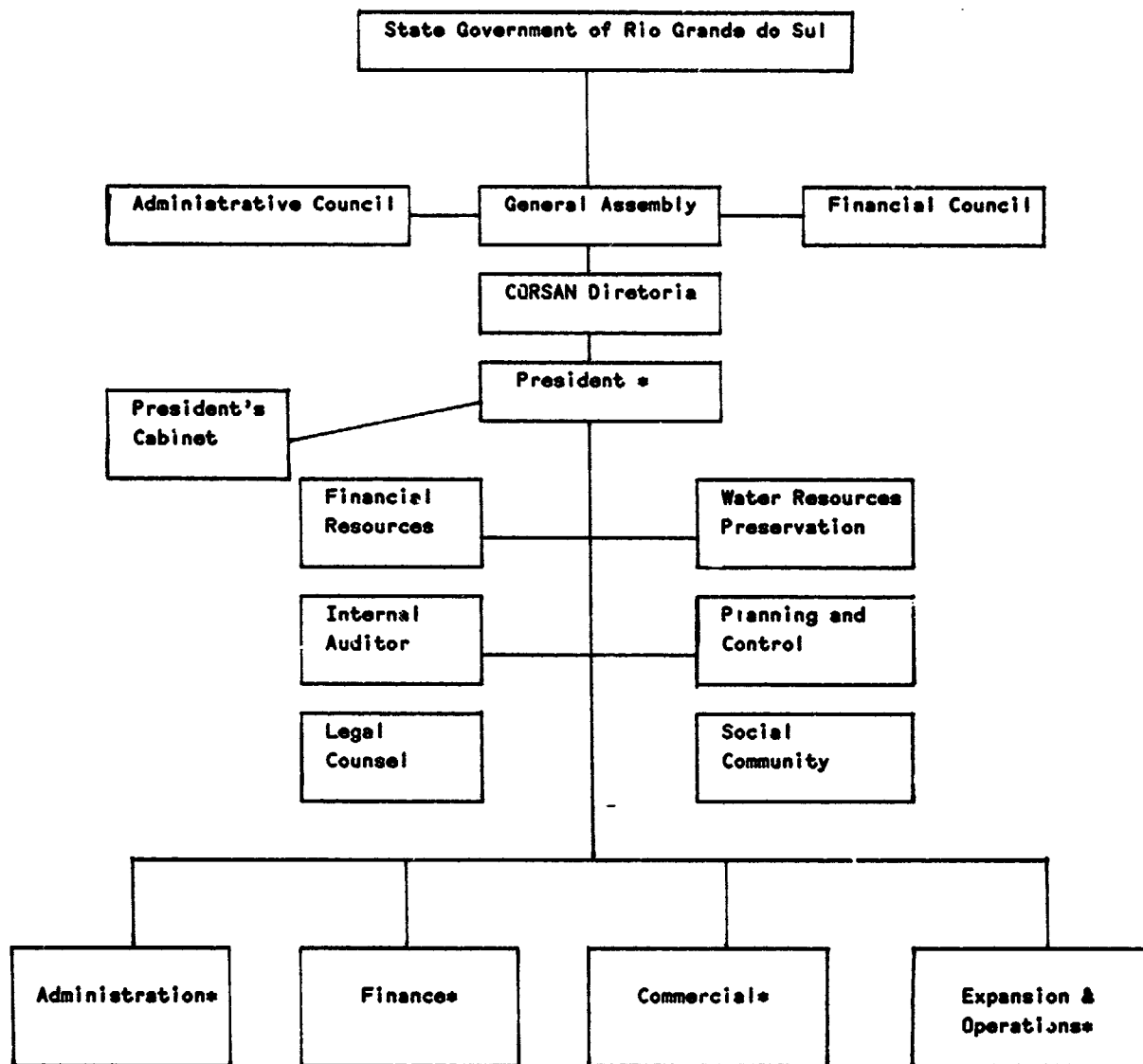
**Municipal Development Project in the State of Rio Grande do Sul  
Water and Sewerage Component  
Institutional Assessment  
CORSAN**

Area	Assessment	Action
<b>General/ Institutional</b>	<p>CORSAN is a corporation majority owned by the State of Rio Grande do Sul, established with State Law #5167 in 1965. CORSAN provides water services to about 60% of the state's urban population, and sewerage services to about 6%. Autonomous municipal companies in the State provide water supply to another 26% of the urban populace, and sewerage services to 11%. Since June, 1987, tariffs have been set by the State. Income tax of 17% is paid to the Federal Government.</p> <p>The company Director is appointed by the Governor for a term of four years. The Director chooses sub-directors for departments. An administrative and a fiscal council oversee approvals of operations and investments, and budget and audit approval, respectively. This structure is common to most Brazilian state water companies.</p>	None required.
<b>Finances/ Management</b>	<p>CORSAN's combined average water and sewerage tariff (sewerage charges are 100% of water tariffs) for 1988 was about US\$0.30/m<sup>3</sup>, an increase of 12% in real terms from 1987 levels. CORSAN was not able to meet the requirements of its financial recuperation plan (agreed with the Caixa Economica Federal), or comply with the National Tariff Law (which stipulates coverage of operating costs depreciation and debt service costs out of operating revenues), until the increase of 1988. CORSAN's unit cost of service is higher than sector average; this is largely due to a customer base which excludes the State's largest city-centers, particularly the capital, Porto Alegre, (supplied by the autonomous companies).</p> <p>Budgets are done annually and expense control performed on a monthly basis. These functions are computerized (see discussion of accounting below).</p> <p>CORSAN uses a double-entry accrual accounting system, following Brazilian corporate law (#6404), which includes adjustments for inflation. However, because of distortions in indexes used for adjustment it is likely that assets are undervalued. Monthly financial results are available within 30 days; annual reports are available within 90 days of year-end. CORSAN uses the standard chart of accounts and written procedures established for</p>	Recommend cost control measures and careful monitoring of operating and financial ratios.

Area	Assessment	Action
	<p>CORSAN's accounts are audited annually by independent external auditors; opinions in recent years have contained qualifications regarding the financial management system of the company, specifically accounting control.</p>	
	<p>CORSAN's assets are undervalued, causing it in the past to approach the ceiling of 12% return on assets stipulated by law, while not adequately covering costs.</p>	<p>Asset revaluation study to be undertaken and implemented by 1991.</p>
<p>Project Planning and Construction</p>	<p>Planning for extension of water and sewerage networks is done in-house for smaller works; planning for major expansions or special jobs is done by external consultants, and the construction carried out by private contractors.</p>	
<p>Operations and Maintenance</p>	<p>CORSAN has excess capacity in certain municipalities; this capacity would be utilized by the proposed project.</p>	
	<p>Losses are equal to about 15% of total water production; this is higher than the sector average for state water companies.</p>	<p>The operational improvement program would help reduce these losses.</p>
<p>Human Resource Development</p>	<p>CORSAN's total staff numbered about 5,565 at the end of 1988, or about 194 consumers per employee (1.078 million consumers).</p>	
	<p>Salaries levels are comparable to other State companies, and are higher than those of the autonomous municipal water companies.</p>	
	<p>A training program has been identified.</p>	<p>To be financed under Institutional Development component.</p>
<p>1/ On January 15, 1989, the government announced Plano Verso, which among other measures, established a new currency (devalued by about 20%).</p>		



BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Organization Chart  
CORSAN



\* Denotes membership in Diretoria.

**MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Water and Sewerage Component  
CORSAN  
Income Statements  
(current US\$ millions)**

	-----historic-----					est.-	-----forecast-----				
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Operating revenues	39.4	54.0	70.5	71.8	85.7	93.8	101.5	108.0	114.9	122.4	130.5
Water Sales	39.4	54.0	70.5	71.8	79.2	86.5	91.2	97.1	103.5	110.3	117.7
Sewerage Sales					4.5	5.1	7.7	8.3	8.9	9.6	10.3
Other	0.0	0.0	0.0	0.0	2.0	2.2	2.5	2.5	2.5	2.5	2.5
Operating expenses	29.3	34.9	50.1	51.0	57.4	59.0	60.8	62.6	64.5	66.4	68.4
Cost of Service	22.1	26.5	43.5	38.3	43.1	44.3	45.6	46.9	48.4	49.8	51.3
Commercial	1.4	1.9	2.8	3.6	4.0	4.1	4.3	4.4	4.5	4.6	4.8
Administrative	5.8	6.5	9.8	9.2	10.3	10.6	10.9	11.3	11.6	12.0	12.3
Depreciation	5.5	6.9	9.2	11.0	10.6	12.0	13.5	17.6	23.6	26.2	27.3
Operating income	4.6	12.2	5.3	9.8	17.7	22.9	27.2	27.8	26.9	29.8	34.8
Non-op income/(expense)	0.6	(0.1)	0.0	1.3	2.1	1.9	2.0	2.0	2.0	2.0	2.0
Income before interest	5.3	12.1	5.3	11.2	19.8	24.8	29.2	29.8	28.9	31.8	36.8
Interest	3.4	6.9	12.1	22.9	18.8	15.7	14.7	15.0	15.6	16.4	17.1
Income/(loss) before infl.	1.9	5.2	(6.8)	(11.7)	1.0	9.0	14.6	14.7	13.3	15.4	19.7
Net inflation adjustments	1.8	(2.6)	16.9	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income/(loss)	3.7	2.6	10.0	(12.1)	1.0	9.0	14.6	14.7	13.3	15.4	19.7
Net income tax	0.2	0.2	1.3	(0.3)	0.1	2.7	2.5	2.5	2.3	2.6	3.3
Net income/(loss)	3.5	2.4	6.8	(11.8)	0.9	6.3	12.1	12.2	11.0	12.7	16.3
Operating ratio	0.74	0.65	0.80	0.71	0.67	0.63	0.60	0.58	0.56	0.54	0.52
RoR on unrevalued assets		10.1%	3.5%	5.6%	9.7%	10.8%	11.5%				
RoR on revalued assets 1/								9.4%	6.9%	6.8%	6.1%
Op.cost + deprec + dserv											
----- 2/	1.09	1.00	1.19	1.14	0.99	0.99	0.95	0.97	0.99	0.99	0.96
Op.Revenues											

NOTES: 1/ Assets are to be revalued in fiscal 1991, thus the decrease in rate of return in that year.  
(Forecasts assume roughly doubling of asset base.) The National Tariff Law provides a ceiling of 12% on revalued assets.

2/ This ratio indicates compliance (<1.00) or non-compliance (>1.00) with the National Tariff Law.

**MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Water and Sewerage Component  
CORSAN  
Balance Sheets  
(current US\$ millions)**

Year ending December 31	-----historic-----					-----est.-----	-----forecast-----				
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
<b>ASSETS</b>	<b>210.7</b>	<b>282.6</b>	<b>300.3</b>	<b>296.2</b>	<b>321.2</b>	<b>419.6</b>	<b>435.0</b>	<b>506.7</b>	<b>668.6</b>	<b>698.8</b>	<b>724.4</b>
Current assets	7.6	11.8	18.5	18.6	22.7	24.7	26.3	26.7	26.7	27.0	28.3
Cash and banks	0.8	0.4	1.3	2.7	4.4	4.6	5.0	5.0	5.0	5.0	5.0
Accts Receivable	4.7	8.9	9.3	12.1	14.3	15.9	16.3	16.5	16.3	16.4	17.5
Inventories	2.1	1.8	2.4	2.8	2.9	3.1	3.5	3.7	3.9	4.1	4.3
Other current assets	0.6	0.7	0.5	1.0	1.0	1.1	1.5	1.5	1.5	1.5	1.5
Fixed assets	202.8	219.7	285.2	274.9	298.9	387.3	404.0	538.6	638.0	668.1	694.8
Plant in service	148.2	168.4	225.8	244.9	268.5	329.3	344.4	538.5	641.0	669.2	696.2
Accumulated depreciation	(84.8)	(40.2)	(57.0)	(64.7)	(77.6)	(92.6)	(106.1)	(135.5)	(212.6)	(238.8)	(236.1)
Net plant in service	114.0	129.2	168.9	180.1	188.9	236.7	238.3	351.0	428.4	430.4	430.0
Work in progress	88.4	91.5	116.4	94.8	111.1	150.6	165.7	185.6	209.6	237.8	264.8
Long Term Accounts	0.0	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Deferred Assets	0.2	0.3	0.9	0.8	0.7	0.7	3.6	2.4	2.7	2.5	0.1
Investments	0.5	0.5	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8
<b>EQUITY AND LIABILITIES</b>	<b>210.7</b>	<b>282.6</b>	<b>300.3</b>	<b>296.1</b>	<b>321.2</b>	<b>419.6</b>	<b>435.0</b>	<b>506.7</b>	<b>668.6</b>	<b>698.8</b>	<b>724.4</b>
Current liabilities	11.1	12.5	22.0	26.3	26.2	29.0	31.8	34.4	35.0	35.8	36.8
Short-term portion of debt	2.6	3.8	5.2	9.5	8.1	11.9	12.3	14.7	15.0	15.6	16.4
Accounts payable	7.8	6.8	6.7	6.2	6.9	7.2	7.5	7.7	7.9	8.2	8.4
Customer deposits	0.5	1.6	7.7	11.5	9.5	8.0	10.0	10.0	10.0	10.0	10.0
Other current liabilities	0.1	0.2	2.4	1.1	1.7	1.9	2.0	2.0	2.0	2.0	2.0
Long-term debt	100.5	119.1	148.3	147.0	171.7	242.8	245.6	254.7	285.8	280.7	287.8
Special obligations	0.7	1.3	2.3	1.6	1.7	1.8	2.2	2.0	2.0	2.0	2.0
Equity	98.4	99.7	127.7	118.2	121.6	140.0	155.4	275.7	365.9	380.3	397.7
Share capital	26.5	25.1	55.4	21.2	21.9	25.2	28.5	29.5	30.5	31.5	32.5
Capital reserve	55.2	56.6	44.9	77.7	80.3	92.4	92.4	92.4	92.4	92.4	92.4
Revaluation Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	107.0	185.2	185.9	186.0
Retained earnings	16.7	17.9	27.3	19.4	19.5	22.4	34.5	48.7	57.7	70.5	86.8
Current Ratio	0.69	0.95	0.61	0.66	0.87	0.85	0.83	0.78	0.76	0.75	0.77
Accts Recvble Comperator	43	60	48	62	61	62	59	56	52	49	49
Debt/Equity Ratio	0.51	0.54	0.54	0.55	0.59	0.63	0.61	0.45	0.42	0.42	0.42

**MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Water and Sewerage Component  
CORSAN  
Funds Flows  
(current US\$ millions)**

Year ending December 31	-----historic-----					est.-	-----forecast-----					TOTAL
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	90-94
<b>SOURCES</b>												
Gross fund generation	19.7	26.8	26.6	16.8	28.7	31.7	42.7	47.4	52.4	58.0	64.1	264.5
Income before interest	5.8	12.1	6.8	11.2	18.1	19.7	29.2	29.8	29.9	31.8	36.8	156.8
Depreciation	5.5	6.9	9.2	11.0	10.6	12.0	13.5	17.6	23.6	26.2	27.8	108.2
Other	8.9	7.8	12.0	(5.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: equity service	0.2	0.2	1.8	(0.8)	0.1	2.7	2.5	2.5	2.8	2.6	3.3	18.2
Income tax	0.2	0.2	1.8	(0.8)	0.1	2.7	2.5	2.5	2.8	2.6	3.3	18.2
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross internal funding	19.5	26.1	25.2	16.6	28.6	29.0	40.2	44.9	50.2	55.8	60.7	251.8
Less: debt service	8.8	12.8	18.4	19.8	16.5	21.8	22.7	24.1	26.0	28.4	29.6	130.7
Repayment	4.7	5.4	6.2	10.2	4.8	9.5	8.0	9.1	10.4	12.0	12.5	52.0
Interest on debt	3.6	6.9	12.2	9.6	12.1	12.3	14.7	15.0	15.6	16.4	17.1	78.7
Net internal funding	11.2	13.8	6.8	(3.3)	7.2	7.2	17.6	20.8	24.2	27.0	31.2	120.6
Plus: customer advances	0.9	1.4	2.1	1.9	0.0	2.0	2.0	2.0	2.0	2.0	2.0	10.0
Net customer-based fundin	12.1	15.2	8.9	(1.4)	7.2	9.2	19.6	22.8	26.2	29.0	33.2	130.6
Plus: equity contributions	1.7	0.0	1.1	1.0	0.0	3.8	1.0	1.0	1.0	1.0	1.0	6.0
Non-borrowed funding	13.8	15.2	10.0	(0.4)	7.2	12.5	20.6	23.8	27.2	30.0	34.2	136.6
Plus: borrowings	9.2	22.9	22.8	8.7	16.9	17.0	10.8	18.2	21.5	26.9	19.6	97.0
<b>Total Sources</b>	<b>23.0</b>	<b>38.1</b>	<b>32.8</b>	<b>8.4</b>	<b>24.0</b>	<b>29.5</b>	<b>31.4</b>	<b>42.0</b>	<b>48.7</b>	<b>56.9</b>	<b>53.8</b>	<b>232.6</b>
<b>APPLICATIONS</b>												
Investments	31.0	37.9	41.7	21.8	26.9	27.0	30.2	39.8	48.1	56.3	64.0	228.4
Increase in working capital	(8.0)	0.1	(8.0)	(12.9)	(2.9)	2.5	1.2	2.2	0.5	0.5	-0.3	4.2
<b>Total Applications</b>	<b>23.0</b>	<b>38.0</b>	<b>32.8</b>	<b>8.4</b>	<b>24.0</b>	<b>29.5</b>	<b>31.4</b>	<b>42.0</b>	<b>48.6</b>	<b>56.8</b>	<b>53.7</b>	<b>232.6</b>
Debt Service Coverage	1.3	1.5	0.8	0.7	1.3	1.5	1.9	2.0	2.0	2.0	2.2	

**Municipal Development Project in the State of Rio Grande do Sul  
Water and Sewerage Component  
Institutional Assessment  
DMAE**

Area	Assessment	Action
<b>General/ Institutional</b>	<p>DMAE is an autonomous entity ("suberkia") created by municipal law #2812 of 1981. Its service area covers the capital of the State, Porto Alegre. While financially independent (it sets tariff, financial and investment policies), it is essentially a branch of the municipal government. DMAE is exempt from municipal taxes, and has no shareholders.</p> <p>The company Director is appointed by the Mayor for a term of four years. The Director chooses sub-directors for departments. A fiscal council oversees ex-post audits and budget approvals.</p> <p>DMAE's accounts are regulated by Federal guidelines for municipal governments agencies, rather than by Brazilian corporate law.</p> <p>The six municipally-owned autonomous water companies in the State of Rio Grande do Sul have formed an organization to promote projects, studies and issues of common concern to all companies. Among the proposals for future work are: improved financial/management systems, computerization of internal accounting and control, improved training programs, long-run marginal cost pricing studies, and asset revaluation.</p>	<p>None required.</p> <p>Recommend internal maintenance of standardized corporate financial accounts, including income statement, balance sheet, and flow of funds.</p> <p>Program to be appraised by BADESUL and financed under the Institutional Development component.</p>
<b>Finances/ Management</b>	<p>DMAE's average water tariff for 1988 was about US\$0.10/m<sup>3</sup> (sewerage tariffs are 100% of water tariffs). While lower than the State water company's average tariff for the year (about US\$0.30/m<sup>3</sup>), this rate enables DMAE to comfortably cover operating costs, leaving in excess of 25% of revenues for investment in expansion. This is due (i) to the very low overall indebtedness of the company (debt:equity ratio of 5:95, on a non-adjusted basis for 1988), and (ii) to the economy-of-scale benefits from a high "verticality" ratio (i.e. large number of consumers per connection). The devaluation of January, 1989, 1/ caused some real loss in DMAE's real average water tariff, however this has been regained in subsequent months.</p> <p>Budgets are done annually and expense control performed on a monthly basis. Although budgets are currently done manually, the organization of autonomous water companies will propose a plan for a computerized financial accounting and management package to be installed gradually in all of the state's autonomous water companies.</p>	<p>Propose these ideas be formalized into a plan with terms of reference for a study which could be financed under the technical assistance component of the loan.</p>

Area	Assessment	Action
Project Planning and Construction	<p>DMAE uses a double-entry accrual accounting system. This also is done manually, on a historic-cost basis (i.e. not adjusted for inflation), and without depreciation charges. Monthly financial results are available within 30 days; annual within 60 days of year-end. DMAE's chart of accounts is the State standard (from the PLANASA system). Written procedures exist. The billing and payroll functions are performed on the municipality's computer system. These are done efficiently, and without substantial delay. A successful cut-off policy is in effect in DMAE; overdue accounts are adjusted for inflation, and an additional penalty charged for late payment.</p> <p>Audits are performed annually by the State's Tribunal de Contas.</p> <p>Planning for extension of water and sewerage networks is done in-house up to about 300 mm diameter pipes for water and 200 mm pipes for sewerage. Planning for major expansions or specialized jobs is done by external consultants, and the construction carried out by private contractors.</p>	<p>Agree on timing for a study on asset revaluation and implementation of findings, including the requirement of depreciation charge, and to internally adjust accounts for inflation at least once a year.</p> <p>Advance receipt of detailed designs for 20% of total project costs required.</p>
Operations and Maintenance	<p>After completion of current works in production expansion at the end of 1989, DMAE will have an excess water production capacity of about 10%.</p> <p>Losses are equal to about 40% of total water production; this is about 10% higher than the sector average for state water companies.</p>	<p>The operations improvement component of the project will directly address containment of losses, by increasing from 95% to 100% the number of metered consumers.</p>
Human Resource Development	<p>DMAE's total staff numbered about 2,410 at the end of 1988, or about 240 consumers per employee (577,000 consumers).</p> <p>Salaries of all the municipal water companies in the State are far below comparable State water company salaries.</p> <p>A training program is being identified, in conjunction with the association of municipal companies.</p>	

1/ On January 15, 1989, the government announced Plano Verao, which among other measures, established a new currency (devalued by about 20%).

BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Water and Sewerage Component  
Summary Financial and Operational Situation 1/  
Autonomous Municipal Companies  
(US\$ thousands, estimated as of end 1988)

Page 9 of 9

Company Municipality	DMAE P. Alegre	SEMAE S. Leopoldo	SAMAÉ Caxias	DAEB Bage	SANEP Pelotas 2/	DAE Livramento
<b>INCOME STATEMENT</b>						
Water Billed (million m <sup>3</sup> /yr)	109.9	9.7	10.6	8.4	20.5	4.1
Sewerage Billed ( " equiv.)	43.8	1.4	n.a.	4.2	8.5	1.2
Avg. Water Tariff (US\$/m <sup>3</sup> )	0.090	0.112	0.198	0.182	0.079	0.093
Avg. Sewerage Tariff ( " )	0.100	0.111	n.a.	0.121	0.070	0.085
Total Revenues	15,488	1,258	2,248	1,698	2,899	498
Operating Expenses	11,888	1,192	1,498	1,618	3,155	423
Net Income/(Loss)	3,650	61	750	85	(256)	75
Operating Ratio	0.78	0.95	0.67	0.95	1.09	0.85
<b>SOURCES &amp; USES OF FUNDS</b>						
Internal Sources	5,650	61	750	85	(256)	75
Borrowings	0	0	3,250	0	0	0
Equity	100	0	50	0	258	75
Total Sources	5,750	61	4,051	85	0	150
Investments	5,700	85	4,310	75	50	155
Change in Working Capital	(180)	(24)	(259)	10	(50)	(5)
Debt Service	230	0	0	0	0	0
Total Uses	5,750	61	4,051	85	0	150
Int. Cash/Revenues	36%	5%	33%	5%	-9%	15%
Int. Cash/Investments	99%	71%	17%	113%	-512%	49%
<b>OPERATIONAL DATA</b>						
<b>Water:</b>						
Coverage (% pop. served)	96%	84%	91%	86%	99%	72%
Capacity (million m <sup>3</sup> /yr)	168	12	17	19	30	16
Water produced ( " )	179	14	17	11	28	12
Number consumers ('000)	396	33	66	30	72	17
Number connections ( " )	166	27	48	26	66	14
Number metered connections ( " )	158	14	48	12	37	8
Excess capacity (%)	-6.3%	-17.3%	2.6%	43.3%	7.2%	25.5%
Losses (%)	38.6%	30.0%	36.0%	21.5%	27.0%	65.8%
Metered consumers (%)	94.8%	52.0%	100.0%	45.2%	56.7%	60.2%
Consumers/connection	2.38	1.24	1.38	1.18	1.10	1.24
<b>Sewerage:</b>						
Coverage (% pop. served)	44.0%	15.2%	n.a.	44.0%	51.0%	33.0%
Number consumers ('000)	182.8	6.0	n.a.	14.6	37.2	6.8
Number connections ( " )	48.6	5.9	n.a.	14.6	33.9	6.8
Consumers/connection	3.76	1.03	n.a.	1.00	1.10	1.00
<b>General:</b>						
Number employees	2,410	224	374	282	765	203
Consumers/employee	240	176	177	159	143	117

**NOTES:**

1/ Balance sheets not provided due to unreliability of non-inflation-adjusted information.

It should be noted, however, that all companies have debt:equity ratios of 5:95 or better.

2/ Pelotas' 1988 result is not indicative of its general financial situation; previous years' performance has been substantially better.

**BRAZIL**  
**MUNICIPAL DEVELOPMENT PROJECT**  
**IN THE STATE OF RIO GRANDE DO SUL**

**MUNICIPAL DEVELOPMENT PROJECTS IN BRAZIL**

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Expressed in millions of US dollars  
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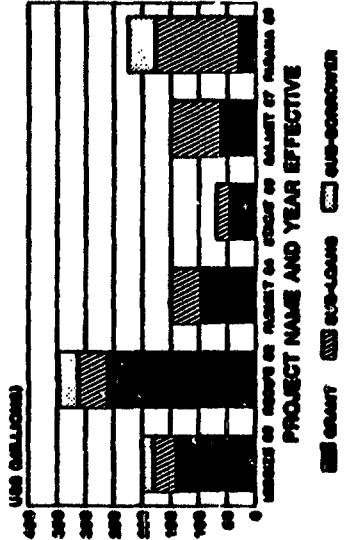
Description No, yr. effective	Midsize 1720-80	Recife 2170-82	Par Mkt 2343-84	Sta Cat 2623-86	Sal Met 2681-87	Paraná PEDU-89
<b>Source of funds:</b>						
Federal	\$70.0	\$52.2			\$30.0	
State	40.0	137.1	\$97.5	\$45.5	66.0	\$75.7
Municipal funds	20.0	34.8				48.9
World Bank	70.0	123.9	52.7	24.5	55.0	100.0
	<u>\$200.0</u>	<u>\$348.0</u>	<u>\$150.2</u>	<u>\$70.0</u>	<u>\$151.0</u>	<u>\$224.6</u>
<b>Municipal finance plan:</b>						
Grant	\$140.0	\$261.0	\$97.5	\$45.5	\$62.3	\$30.4
Loan	40.0	52.2	52.7	24.5	88.7	146.2
Municipal funds	20.0	34.8	0.0	0.0	0.0	48.9
	<u>\$200.0</u>	<u>\$348.0</u>	<u>\$150.2</u>	<u>\$70.0</u>	<u>\$151.0</u>	<u>\$225.5</u>
	Midsize 1720-80	Recife 2170-82	Par Mkt 2343-84	Sta Cat 2623-86	Sal Met 2681-87	Paraná PEDU-89
<b>Source of funds:</b>						
Federal	35%	15%	0%	0%	20%	0%
State	20%	39%	65%	65%	44%	33%
Municipal funds	10%	10%	0%	0%	0%	22%
World Bank	35%	36%	35%	35%	36%	45%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<b>Municipal finance plan:</b>						
Grant	70%	75%	65%	65%	41%	13%
Loan	20%	15%	35%	35%	59%	65%
Municipal funds	10%	10%	0%	0%	0%	22%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Midsize 1720-80	Recife 2170-82	Par Mkt 2343-84	Sta Cat 2623-86	Sal Met 2681-87	Paraná PEDU-89
<b>Bank loans by region through 1988 (US\$ millions):</b>						
Northeast	\$25.8	\$123.9			\$55.0	\$204.7
South	17.5		\$52.7	\$24.5		94.7
Southeast	26.7					26.7
	<u>\$70.0</u>	<u>\$123.9</u>	<u>\$52.7</u>	<u>\$24.5</u>	<u>\$55.0</u>	<u>\$326.1</u>

Number	Project name
1720-BR	Medium Size Cities
2170-BR	Recife Metropolitan Region
2343-BR	Paraná Market Towns Improvement Project
2623-BR	Santa Catarina Small Cities Project
2681-BR	Salvador Metropolitan

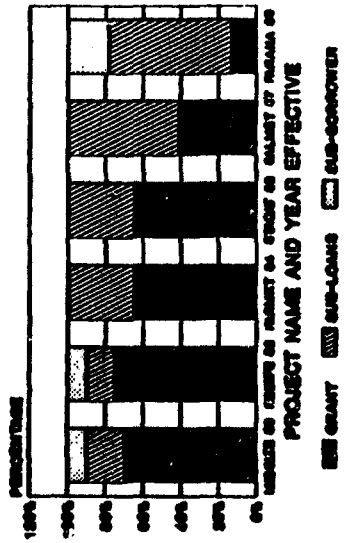


**BRAZIL**  
**MUNICIPAL DEVELOPMENT PROJECT**  
**IN THE STATE OF RIO GRANDE DO SUL**

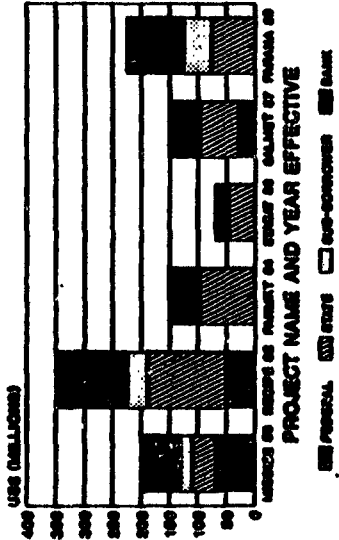
**BRAZIL - MUNICIPAL DEVELOPMENT PROJECTS  
SUB-BORROWER FINANCE PLAN**



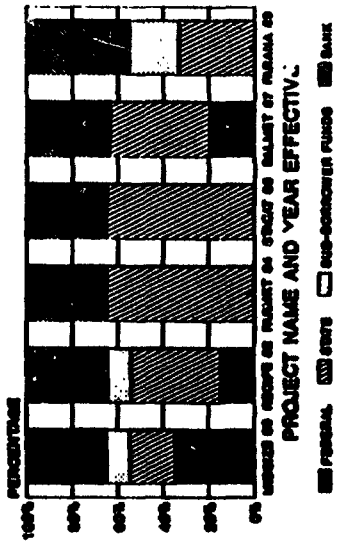
**BRAZIL - MUNICIPAL DEVELOPMENT PROJECTS  
SUB-BORROWER FINANCE PLAN BY %**



**BRAZIL - MUNICIPAL DEVELOPMENT PROJECTS  
SOURCE OF FUNDS AT APPRAISAL**



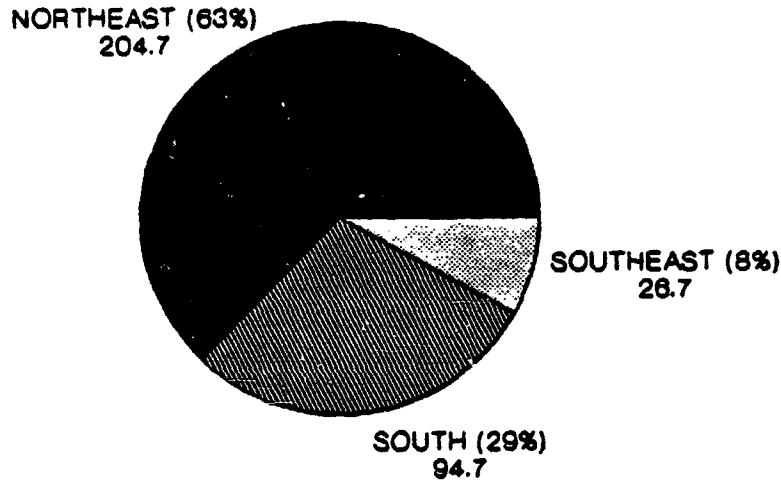
**BRAZIL - MUNICIPAL DEVELOPMENT PROJECTS  
SOURCE OF FUNDS BY %**



**BRAZIL**  
**MUNICIPAL DEVELOPMENT PROJECT**  
**IN THE STATE OF RIO GRANDE DO SUL**

ANNEX 14  
 Page 3 of 3

## BRAZIL- MUNICIPAL DEVELOPMENT PROJECTS BANK LENDING BY REGION 1980-1988



	Midsize 1720-80	Recife 2170-82	Par Mkt 2343-84	Sta Cat 2623-86	Sal Met 2681-87	Total
Bank loans by region through 1988 (US\$ millions):						
Northeast	\$25.8	\$123.9			\$55.0	\$204.7
South	17.5		\$52.7	\$24.5		94.7
Southeast	26.7					26.7
	<u>\$70.0</u>	<u>\$123.9</u>	<u>\$52.7</u>	<u>\$24.5</u>	<u>\$55.0</u>	<u>\$326.1</u>

Number	Project name
1720-BR	Medium Size Cities
2170-BR	Recife Metropolitan Region
2343-BR	Paraná Market Towns Improvement Project
2623-BR	Santa Catarina Small Cities Project
2681-BR	Salvador Metropolitan

**BRAZIL - MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL  
Project Justification and Economic Analysis**

1. The justification for the proposed project was based upon (a) an economic analysis of project components whose benefits are readily quantified through user fees and other proxies (i.e. water and sewerage, drainage, paving and street lighting), representing 70.9% of total project costs; and (b) the significant improvements in social, educational, environmental and equity conditions deriving from project components whose benefits are more difficult to quantify, such as care centers and school extensions, for example. The latter account for 29.1% of total project costs.

2. Economic Analysis - costs Economic costs were taken to be all capital expenditures net of taxes and duties (9.8% of total), and recurrent expenditures for maintenance (27-4% of capital cost depending upon the type of component). Water and sewerage capital costs include works and equipment for distribution lines and connections in areas where surplus production or treatment capacity exists. Thus, a large portion of investment costs in this case have been considered as sunk costs. The proposed project would optimize the use of these existing facilities.

3. Benefits Incremental revenues from tariffs and connection fees were used as proxies for economic benefits in the cost-benefit calculation in the case of water and sewerage investments. Tariff levels were assumed constant at current levels over the period. In the case of paving, drainage and street lighting, the increased land values resulting from the improvements were capitalized over 15 years and treated as the economic benefit stream. Estimates of land value changes were based upon the experience of the impact of similar types of improvements upon the value of land in the PRAM project (Ln 2343-BR) in Paraná.

4. Economic Rate of Return and Sensitivity Analysis As summarized below, the internal (economic) rate of return using the above parameters was estimated to be 19.9% (base case). Sensitivity analyses were undertaken on the basis of possible increased costs (due to overruns etc.) and possible benefits (due to lower than expected tariff levels, smaller than expected increases in land values etc.). If costs increase by 20%, the rate of return falls to 15.4% and if benefits are reduced by 20%, the rate of return falls to 14.4%.

Components:	INTERNAL ECONOMIC RATES OF RETURN			% of Total Costs
	Base Case	plus 20% costs	less 20% benefits	
Paving and Drainage	20.2	15.8	14.9	23.4
Street Lighting	17.1	12.8	11.9	4.6
Water and Drainage	20.2	15.4	14.5	42.9
<b>TOTAL (70.9% proj costs)</b>	<b><u>19.9</u></b>	<b><u>15.4</u></b>	<b><u>14.4</u></b>	<b><u>70.9</u></b>

MUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SUL

## Economic Analysis

(US\$ thousands in constant prices)

Year	PAYING AND DRAINAGE					STREET LIGHTING					
	Investment Cost	Operating Cost	Total Cost	Total Benefits	Net Benefits	Investment Cost	Operating Cost	Total Cost	Total Benefits	Net Benefits	
1990	4,850	97	4,947		(4,947)	2,553	94	2,447		(2,447)	
1991	12,125	889	12,464	1,140	(11,325)	2,853	188	2,541	541	(2,000)	
1992	12,125	582	12,707	3,989	(8,718)	2,853	282	2,635	1,092	(1,553)	
1993	12,125	824	12,949	6,838	(6,111)	2,853	876	2,729	1,624	(1,105)	
1994	7,275	970	8,245	9,688	1,443		876	876	2,165	1,788	
1995		970	970	11,397	10,427		876	876	2,165	1,788	
1996		970	970	11,397	10,427		876	876	2,165	1,788	
1997		970	970	11,397	10,427		876	876	2,165	1,788	
1998		970	970	11,397	10,427		876	876	2,165	1,788	
1999		970	970	11,397	10,427		876	876	2,165	1,788	
2000		970	970	11,397	10,427		876	876	2,165	1,788	
2001		970	970	11,397	10,427		876	876	2,165	1,788	
2002		970	970	11,397	10,427		876	876	2,165	1,788	
2003		970	970	11,397	10,427		876	876	2,165	1,788	
2004		970	970	11,397	10,427		876	876	2,165	1,788	
2005		970	970	11,397	10,427		876	876	2,165	1,788	
2006		970	970	11,397	10,427		876	876	2,165	1,788	
2007		970	970	11,397	10,427		876	876	2,165	1,788	
2008		970	970	11,397	10,427		876	876	2,165	1,788	
2009		970	970	11,397	10,427		876	876	2,165	1,788	
Internal Rate of Return					20.2%	Internal Rate of Return					17.1%
- sensitivities:					-----	- sensitivities:					-----
20% increase in costs					15.6%	20% increase in costs					12.8%
20% fall in benefits					14.9%	20% fall in benefits					11.9%

Year	WATER AND SEWERAGE					TOTAL PROJECT 1/					
	Investment Cost	Operating Cost	Total Cost	Total Benefits	Net Benefits	Investment Cost	Operating Cost	Total Cost	Total Benefits	Net Benefits	
1990	8,858	354	9,213		(9,213)	16,081	545	16,607	0	(16,607)	
1991	13,288	888	14,173	2,303	(11,870)	27,765	1,414	29,179	3,984	(25,195)	
1992	17,717	1,595	19,311	5,758	(13,553)	32,195	2,459	34,653	10,829	(23,824)	
1993	31,004	2,835	33,839	10,364	(23,475)	45,482	4,036	49,518	18,828	(30,692)	
1994	17,717	3,543	21,260	18,425	(2,835)	24,992	4,890	29,881	30,278	398	
1995		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
1996		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
1997		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
1998		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
1999		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2000		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2001		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2002		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2003		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2004		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2005		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2006		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2007		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2008		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
2009		3,543	3,543	23,032	19,488		4,890	4,890	36,594	31,704	
Internal Rate of Return					20.2%	Internal Rate of Return					19.9%
- sensitivities:					-----	- sensitivities:					-----
20% increase in costs					15.4%	20% increase in costs					15.4%
20% fall in benefits					14.5%	20% fall in benefits					14.4%

1/ Components accounting for 70.9% of total project costs.

BRAZILMUNICIPAL DEVELOPMENT PROJECT  
IN THE STATE OF RIO GRANDE DO SULSelected Documents and Data Available in the Project File

## 1.0 Operational Manuals

- 1.1. Manual de Orientacao
- 1.2. Documento Basico
- 1.3. Guia de Projetos
- 1.4. Plano Global de Acao Financeira
- 1.5. Modelos de Instrumentos de Licitacao
- 1.6. Definicao de Parametros Basicos (Analise Fin.)
- 1.7. Roteiro para Diagnostico Operacional
- 1.8. FUNDOPIMES (Operating Manual)

## 2.0 Execution of Project - Organizational

- 2.1. Copia de Decreto Lei implantacao PIMES.
- 2.2. Informacoes gerais sobre o Rio Grande do Sul
- 2.3. Documentos do Orgao Gestor
- 2.4. Perfil Institucional. 1989. BADESUL.
- 2.5. Manual de Organizacao (v. 1978). BADESUL.
- 2.6. Relatorio de Diretoria (1 semestre, 1989). BADESUL.
- 2.7. Area de Operacoes Sociais e Urbanas. BADESUL.
- 2.8. Demonstracoes Contabeis do Exercicio (31 Dezembro 1984).
- 2.9. Demonstracoes Contabeis do Exercicio (31 Dezembro 1985).
- 2.10. Demonstracoes Contabeis do Exercicio (31 Dezembro 1986).
- 2.11. Demonstracoes Contabeis do Exercicio (31 Dezembro 1987).
- 2.12. Demonstracoes Contabeis do Exercicio (31 Dezembro 1988).
- 2.13. Relatorio da Administracao 1983/1986. Banco do Estado do Rio Grande do Sul, S.A. BANRISUL.
- 2.14. Relatorio da Administracao 1985. BANRISUL.
- 2.15. Relatorio da Administracao 1987. BANRISUL.
- 2.16. Balanco Patrimonial em 31 Dezembro 1985. BANRISUL
- 2.17. Balanco Patrimonial 01.01 a 31.12.86. BANRISUL
- 2.18. Balanco Patrimonial 01.01 a 31.12.87. BANRISUL
- 2.19. Balanco Patrimonial em 31 Junho 1988. BANRISUL
- 2.20. Relatorio do Programa Estadual de Descentralizacao Regional. Conselho Estadual de Desenvolvimento Urbano - Secretaria Executiva-SE/CEDU. Nov. 1988.
- 2.21. Programa de Desenvolvimento Institucional. Fundacao para o Desenvolvimento de Recursos Humanos.

- 2.22. Programas de Gestao Metropolitanas. METROPLAN.
  - 2.23. Legal and Organizational Structure 1989. COMITESINOS - METROPLAN.
  - 2.24. Legislacao Ambiental sobre Recursos Hidricos. METROPLAN. Mar. 1989.
  - 2.25. Um Desafio - A Conquista da Democracia - Coragem de Mudar - Coragem de Fazer. Prefeitura Municipal de Porto Alegre. 1989.
- 3.0 Details of Subprojects
- 3.1. Documento basico de treinamento
  - 3.2. Programa de treinamento especifico para o 1 ano do projeto
  - 3.3. Documento basico de Assistencia Tecnica
  - 3.4. Documento basico de Pavimentacao, Drenagem e Iluminacao Publica
  - 3.5. Documento basico de Atencao a Infancia
  - 3.6. Documento basico de Escolas
  - 3.7. Documento basico de Postos de Saude
  - 3.8. Documentos gerais das Cias. de Agua e Esgoto.
  - 3.9. Minuta do termo de Referencia para Estudo Global da Bacia do Rio dos Sinos.
  - 3.10. Documento basico de Residuos Solidos
  - 3.11. Documento de Consolidacao do Componente Saneamento e Meio Ambiente
  - 3.12. Documento de Consolidacao do Componente Habitacao
  - 3.13. Programa de Recuperacao da Qualidade das Aguas do Rio dos Sinos - Analise Preliminar de Viabilidade Economico-Financeira. Fev. 1989.
  - 3.14. Programa de Melhoria para o Setor de Residuos Solidos da RMPA. Fundacao Metropolitana de Planejamento (METROPLAN).
  - 3.15. Proposta de Rede de Monitoramento para Avaliacao da Qualidade das Bacias dos Rios dos Sinos e Gravatai. METROPLAN.
  - 3.16. PIMES - Projeto Piloto - Melhorias Habitacionais - Documento Basico. PROCERGS.
  - 3.17. Subprograma de Desenvolvimento Institucional - Componente: Treinamento. Fundacao para o Desenvolvimento de Recursos Humanos.

- 3.18. Projeto Piloto - Anexo I: Capacidade de Pagamento da Populacao de Baixa Renda.
- 3.19. Projeto Piloto - Anexo II: Avaliacao das Areas para Reurbanizacao. CEPS.
- 3.20. Projeto Piloto - Anexo III: Questao Urbana na Constituicao. CEPS.
- 3.21. Projeto Piloto - Anexo IV: Diretrizes Basicas para Regularizacao Fundiaria. CEPS
- 3.22. Equipamentos Comunitarios - Documento Basico. CEPS.
- 3.23. Equipamentos Comunitarios - Diagnostico Preliminar das Organizacoes Nao-Governamentais. Conselho Estadual de Politica Social (CEPS).
- 3.24. Equipamentos Comunitarios - Diagnostico Preliminar das Organizacoes Nao-Governamentais (Anexos). Conselho Estadual de Politica Social (CEPS).
- 3.25. Equipamentos Comunitarios - Plano de Desenvolvimento Institucional. CEPS.
- 3.26. Equipamentos Comunitarios - Centros de Atencao a Infancia.
- 3.27. Manual de Orientacao para Comunidade - Versao Preliminar.

#### 4.0 Water Supply and Sewerage Sector Documents

- 4.1. Projetos executivos das Cias. de Agua e Esgoto
- 4.2. Pedido de Reprogramacao - Alteracao do Valor do Investimento e das Participacoes. Servico Autonomo Municipal de Agua e Esgoto (SAMAE). Jan. 1989.
- 4.3. Balanco 1982. SAMAE.
- 4.4. Balanco 1983. SAMAE.
- 4.5. Balanco 1984. SAMAE.
- 4.6. Balanco 1985. SAMAE.
- 4.7. Balanco 1986. SAMAE.
- 4.8. Balanco 1987. SAMAE.
- 4.9. Sistema de Abastecimento de Agua de Bage - Documentacao. Departamento de Agua e Esgotos (DAEB). Fev. 1989.
- 4.10. Sistema de Abastecimento de Agua de Bage - Cronogramas, Orcamentos e Projecoes de Dados - Relatorio 1987/1997. Departamento de Agua e Esgotos (DAEB). Fev. 1989.
- 4.11. Sistema de Abastecimento de Agua de Bage - Estudo de Viabilidade - Relatorio 1987/1997. Departamento de Agua e Esgotos (DAEB). Fev. 1989.

- 4.12. Programa de Recuperacao da Qualidade das Aguas do Rio dos Sinos - Analise Preliminar de Viabilidade Economico-Financeira. Fev. 1989.
- 4.13. Orcamento 1989. SAMAE.
- 4.14. Legislacao. SAMAE. Fev. 8, 1989.
- 4.15. Relacao dos Bens Imoveis e Reavaliacao Patrimonial de 31/03/67. SAMAE.
- 4.16. Evolucao Historica da Tarifa. SAMAE
- 4.17. Plano de Adequacao a Lei de Tarifacao. Companhia Riograndense de Saneamento (CORSAN).
- 4.18. Orcamento 1989. CORSAN.
- 4.19. Informacoes Gerais sobre a Pobreza. CORSAN.
- 4.20. Organograma. CORSAN
- 4.21. Estado Social. CORSAN.
- 4.22. Ampliacao de Redes de Esgoto. CORSAN.
- 4.23. Ampliacao de Redes de Agua. CORSAN.
- 4.24. Controle Operacional. CORSAN.
- 4.25. Estudo de Viabilidade Global do Programa Estadual de Saneamento Basico - 1989-1993. CORSAN.
- 4.26. Programa DMAE-PIMES - Documentacao - Volume 1. Departamento Municipal de Agua e Esgotos (DMAE).
- 4.27. Programa DMAE-PIMES - Documentacao - Volume 2. Departamento Municipal de Agua e Esgotos (DMAE).
- 4.28. Programa Banco Mundial-PIMES. Servico Municipal de Agua e Esgotos (SEMAE). Fev. 1989.
- 4.29. Alternativa B - Programa Banco Mundial-PIMES. SEMAE. Fev. 1989.
- 4.30. Balanco Geral 1972. Anexo No. 1. SEMAE. Fev. 1989.
- 4.31. Balanco Geral 1982-1983. Anexo No. 2. SEMAE. Fev. 1989.
- 4.32. Balanco Geral 1983, 1985, 1986, 1987. Anexo No. 3. SEMAE. Fev. 1989.
- 4.33. Orcamento 1989. Anexo No. 4 SEMAE. Fev. 1989.
- 4.34. Lei de Criacao do SEMAE-Leis e Decretos sobre Tarifas-Evolucao das Tarifas-Informacoes Populacao Baixa Renda-Variacao Patrimonial. Anexo No. 5. (SEMAE). Fev. 1989.



- 4.35. Estudo de Viabilidade (EV)-Informacoes Financeiras 1986-1992-Custo Marginal. Anexo No. 6. (SEMAE). Fev. 1989.
- 4.36. Orcamento 89. Prefeitura Municipal de Pelotas-Servico Autonomo de Saneamento de Pelotas (SANEP).
- 4.37. Ampliacao do Sistema de Esgotos - Tres Vendas. SANEP.
- 4.38. Projeto Desenv. Operacional. Anexo 1. SANEP.
- 4.39. Documentos Diversos - Anexo 1. SANEP.
- 4.40. Estudo de Viabilidade. Anexo 2. SANEP.
- 4.41. Balanco - Exercicio de 1982. Prefeitura Municipal de Pelotas-Servico Autonomo de Agua e Esgotos (SAAE).
- 4.42. Balanco - Exercicio de 1983. SAAE.
- 4.43. Balanco - Exercicio de 1984. SAAE.
- 4.44. Balanco - Exercicio de 1985. SAAE.
- 4.45. Balanco - Exercicio de 1986. SAAE.
- 4.46. Balanco - Exercicio de 1987. SAAE.
- 4.47. Encerramento de 1969. DAE. Prefeitura Municipal - Santana do Livramento-RS - Departamento de Agua e Esgotos (DAE).
- 4.48. Encerramento de 1970. DAE.
- 4.49. Legislacao Basica. DAE. 1970.
- 4.50. Relatorio e Balanco Geral do Exercicio Economico-Financeiro de 1982. Departamento de Agua e Esgotos Sant'Ana do Livramento - RS (DAE).
- 4.51. Relatorio e Balanco Geral do Exercicio Economico-Financeiro de 1983. (DAE).
- 4.52. Relatorio e Balanco Geral do Exercicio Economico-Financeiro de 1984. (DAE).
- 4.53. Relatorio e Balanco Geral do Exercicio Economico-Financeiro de 1985. (DAE).
- 4.54. Relatorio e Balanco Geral do Exercicio Economico-Financeiro de 1986. (DAE).
- 4.55. Relatorio e Balanco Geral do Exercicio Economico-Financeiro de 1987. (DAE).
- 4.56. Orcamento 1989. DAE.
- 4.57. Documento Geral Historico do DAE.
- 4.58. Relatorio 1983.

## 5.0 General

