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Environmental and Social Management in Multi-sectoral Urban Development Projects

A Good Practice Study of the IDB-Supported Procidades Program in Brazil

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1. Executive Summary

The IDB's Board of Directors approved the credit line for Procidades in October 2006. The general objective of this credit mechanism was to make the Bank's action at the municipal level more dynamic and to make the preparation and approval of projects more agile, on the basis of operational decentralization. This innovative mechanism decentralized to the Bank's resident mission in Brasilia responsibility for the preparation, analysis and supervision of loans to Brazilian municipalities. These loans, which maintain federal government approval and guarantees, are intended for multi-sectoral urban development projects up to a ceiling of U$50 million. The Bank also prepared specific Operating Regulations and an Environmental and Social Management Manual to guide the preparation and implementation of these projects. As of February 2013, one Procidades project had been completed (in Toledo, Parana) and sixteen others were under various stages of implementation, involving total Bank commitments of over US$489 million. Another eight such projects, entailing potential new Bank commitments of more than US$235 million, were also at different phases of preparation.

Procidades finances municipal development projects based on existing local development plans for integrated urban development investments consisting of "geographically focused multi-sectoral programs implemented in a coordinated fashion that contribute to the solutions of the needs of urban spaces and specific populations." Eligible actions include, *inter alia*:

(i) neighborhood improvement programs to meet the needs of resident low-income populations through integrated multi-sectoral investments in urban infrastructure, services, social services and land tenure regularization;

(ii) urban rehabilitation and revitalization programs to reverse the physical and economic deterioration suffered in specific areas, as well as strengthen their urban functions and recover their historical and cultural heritages;

(iii) urban consolidation and territorial interventions with a sectoral emphasis, or integrated programs designed to complete urban and social infrastructure and services in specific areas within cities;

(iv) sectoral interventions in transportation and urban road systems, sanitation, urban services, environmental management and social development, among other areas; and

(v) municipal strengthening, including activities to improve municipal performance in terms of financial and tributary administration, internal management, municipal service delivery, urban planning and actions to promote local economic development.

Through Procidades and its earlier and larger parallel urban development operations in Brazil, the Bank has gained considerable experience over the past several decades in the preparation and implementation of global multiple works projects at the municipal, urban and metropolitan levels in both state capitals and smaller intermediate cities. This has also entailed a valuable learning process with respect to environmental and social planning and other local investment and management challenges associated with urban development in Brazil and other Bank client countries, many of which are either already highly urbanized (as in the southern cone of South America) or currently undergoing rapid urbanization (as in Central America). Thus, the lessons from this experience are likely to have wider relevance and utility for other Bank borrowing member countries as well.

In this context, much of what the Bank is doing in connection with its extensive urban development portfolio in Brazil can be characterized as good practice. This is particularly the case in terms of its reliance on planning at the local level and in the ways in which environmental and social considerations and components have been integrated — or "mainstreamed" — into project design and implementation in at least some of these projects. This paper is based on a review of pertinent documents, interviews with Bank staff and selected borrowers and February 2013 field visits to one completed and two advanced Procidades projects in Toledo, Curitiba (both in the state of Parana) and Campo Grande (in Mato Grosso do Sul). These cities, while of varying sizes, see generally higher income and lower poverty levels than many other Brazilian urban areas in other parts of the country. The purpose of this paper is to summarize some of the features of these projects, highlight areas of good practice that could be replicated elsewhere and identify areas where possible improvements might be useful.

The Procidades operations in Toledo and Campo Grande, for example, illustrate good practice in different ways in terms of the incorporation of environmental considerations into integrated urban development projects. The Toledo project included a specific environmental improvement component. It has been one of only two Procidades to specifically do so to date, not counting environmental improvement performed in the course of slum upgrading, which involves the betterment of local low-income neighborhoods from a physical environmental and

public health standpoint, and/or environmental sanitation (i.e., water supply and sewerage). The other such project was one in Passo Fundo (Rio Grande do Sul) that was not studied in detail but which dedicates part of an "urban development and green spaces" component for the purpose of environmental improved. That other Procidades projects have not also contained such components represents a missed opportunity, as does the general failure to include solid waste management and disposal components in these operations.

In the case of Toledo, more specifically, the environmental improvement component has played an important role both in terms of environmental preservation through expansion of the local park system and in helping to orient and structure the city's future expansion. Thus, it has been instrumental both in urban environmental and spatial development terms. Similarly, in Campo Grande, the Procidades project has played an essential role in terms of making positive and creative use of a deactivated railroad right-of-way that penetrates into the heart of the central city. This repurposing has significantly helped in upgrading a previously deteriorated downtown corridor from a physical, environmental, economic and social perspective, in part through a valuable local public consultation and participation process. Both the Toledo and Campo Grande approaches to urban development could, and should, be more widely replicated in other Procidades and Bank-supported multi-sectoral urban investment projects.

Curitiba is noted, quite appropriately, for the history, quality and impressive results of its urban transport and land use planning and environmental management processes over the past four decades among major metropolitan areas and cities in the developing world, both in Latin America and more widely. However, its current Procidades project is less spatially and sectorally integrated than those for Toledo and Campo Grande. Instead, it constitutes a set of sector-specific investments and subprojects for slum upgrading and relocation housing, urban road improvements and construction of new social and administrative facilities in widely differing parts of the municipality. From an urban development standpoint, it thus represents a kind of "gap filling" exercise in which the project is being used to meet specific investment needs in these respective sectors.

While part of these investments are clearly oriented toward meeting needs of lower income populations, the transport and urban mobility subprojects seem likely to primarily benefit middle and/or upper income groups. Thus, they would appear to be less appropriate for inclusion in a program whose investments are intended to "be part of a municipal development plan that

considers general priorities and prioritizes the sectors with the greatest social and economic impact, preferably oriented to low-income populations," according to the Procidades "mission statement." In this case, such investments would indeed seem likely to have a substantial and positive indirect economic impact, but possibly a less positive social one, either because they are located in existing predominantly higher-income neighborhoods or because they are intended in part to help polarize future middle- and upper-income residential and commercial development. This process could adversely affect existing lower-income residents and thus be less positive from a social perspective.

On the other hand, the Curitiba project clearly offers a best-practice example as to how to monitor and control the environmental performance of contractors engaged in project implementation. This refers specifically to the environmental performance monitoring and control and supervision reporting methodology developed and applied by the Procidades project coordination unit, assisted by an environmental management consulting firm. This practice should be disseminated and replicated in other Procidades and urban development operations supported by the Bank in Brazil and elsewhere. Its main limitation is that it refers to contractors' environmental and worker health and safety responsibilities and performance during the construction phase of the investment subprojects and thus do not also cover the subsequent "operation" phase of these facilities. It also does not cover their possible longer-term indirect social and environmental impacts, especially those that may occur as the result of changes in land values and uses induced or facilitated by subprojects. This, however, does not detract from the great usefulness of this methodology as an instrument for environmental safeguard monitoring, supervision and compliance during construction for Bank-financed urban development (and other) investment projects that involve alteration of the physical, natural and, in some cases, surrounding human environments.

Based on the review briefly summarized above and keeping in mind that it is based on a more in-depth examination of only three of the seventeen completed or active Procidades projects to date, the following recommendations, which are further detailed in the concluding section of the main text of this report, are offered for consideration by the Bank. The Bank may find these recommendations useful as it moves forward in Brazil and other client countries in the years ahead with its integrated and/or multi-sectoral urban development projects, particularly those involving multiple works and institutional strengthening components:

1. Undertake a more comprehensive assessment of the design, implementation and lessons learned from the various individual Procidades projects, both with respect to their environmental and social management aspects and more generally.

2. In recognition of the rich learning experience that Procidades represent across a growing number of Brazilian cities, the Bank should proactively organize a program of systematic exchange of information and experience among the growing number of participating urban areas and municipalities in all parts of the country.

3. The Operating Regulations for Procidades should be revised and updated based on experience with program and project planning and implementation to date, including formal attachment of the Environmental and Social Management Manual. This is not presently the case, and the manual should itself be revised and updated with ESG's support.

4. The revision and updating of Procidades' Environmental and Social Management Manual should incorporate the findings and recommendations of the present review and other relevant learning that has taken place within the Bank with regard to the relevant operational, environmental and social safeguard-related aspects of this program over the past five years.

5. Among other aspects, the revised and updated Environment and Social Management Manual for Procidades — and, where appropriate, the Operating Regulations for the program more generally — should include the following elements *inter alia* in addition to its present content:

    a. Stronger orientation as to the measures required to meet the declared social objectives of the program, which should in fact be reflected in both the individual project and subproject eligibility criteria.

    b. Greater attention to intermediate and large cities that are not already among the wealthiest in the country.

    c. Explicit linking of the Procidades to the Bank's new Sustainable Cities initiative, whose project components and subprojects should include as priorities integrated approaches to urban development and revitalization (as in

Campo Grande); the incorporation of green spaces and other environmental considerations in the planning of future urban expansion (as in Toledo); and other environmental management and sustainability-oriented investments. They should also include proactive and systematic efforts to promote "green" urban economies, such as energy efficiency and the use of alternative energy, other measures to mitigate and/or adapt to the likely impacts of global climate change and solid waste management collection and disposal systems, among others.

d. Ensure that (i) the potential positive and negative direct, indirect, induced and/or cumulative environmental and social impacts of each of its projects and their subprojects that may involve alteration of the physical environment and/or affect surrounding neighborhoods, in both their construction and post-construction or "operation" phases, are specifically and carefully assessed as part of the subproject eligibility and selection process; and (ii) any necessary environmental and/or social impact minimization, mitigation and/or compensation and monitoring measures are included, together with the institutional responsibilities, capacity and financial resources to carry them out, in the project and subproject design, implementation arrangements and budgets.

e. All environmental and social impact analyses or assessments of specific Procidades subprojects, in addition to taking possible indirect, induced and/or cumulative impacts explicitly into account, should be specific to the individual subprojects involved. This is in terms of their physical locations and the environmental and socio-economic characteristics of their direct and indirect areas of influence, both at the time this assessment is carried out and taking into consideration likely changes in the future.

f. In global multiple works projects or project components, ensure that all investment subprojects that are not analyzed as part of the "representative" sample are truly consistent in terms of their characteristics, including their potential direct, indirect and/or cumulative environmental and social impacts,

with those in the sample. In addition, as the selection, design and preparation of all non-sample subprojects should be subject to the requirements of the Bank's Environment and Safeguards Compliance Policy (OP-703) and other policies, they should be subject to the same individualized environmental and social due diligence process as the sample projects are.

g. Local environmental consultants hired by the Bank Procidades coordinating team in Brasilia should be vetted, trained, and supervised by ESG in relation to the precise requirements of Bank safeguard policies, the same applying to those involved in orienting and evaluating the pertinent activities of client municipalities with respect to involuntary resettlement.

6. ESG should provide additional advice, guidance and training for Bank operational staff in the following areas:

a. In the context of OP-703, explicitly clarify what it understands by "indirect, regional, and cumulative impacts" both in environmental and social terms and what is specifically required in project-specific environmental analyses/assessments and associated environmental and social management plans in this regard.

b. Clarify the environmental and social due diligence requirements and procedures under the pertinent Bank operational and safeguard policies, including OP-703, for non-sample projects in the context of global multiple works projects or components and their investment subprojects.

c. Clarify the qualifications and roles of all local environmental and social safeguard-related consultants in Brazil and elsewhere with respect to their capacity to properly inform local clients at the federal, state or municipal government levels. Clients will be advised as to the specific requirements and proper procedures of Bank environmental and social safeguard policies. ESG should also ideally oversee the work of these consultants.

d. With respect to Procidades more specifically, increase support to the program as a whole and to its participating cities both through provision of the

additional guidance suggested in the previous items and through its own direct environmental and social supervision of the individual projects. This should be performed in close collaboration with the decentralized Bank project leaders and other local staff and consultants. One alternative in this regard would be to place an ESG staff member or full-time experienced consultant under ESG's supervision in the Bank's Brasilia office in order to provide this additional support.

7. Procidades projects should make greater use of their obligatory municipal institutional strengthening components to help build and/or consolidate local environmental and social planning and local management capacity. This should be done with an eye toward improving both the sustainability of project investments and local urban development interventions more generally.

8. Procidades should consider requiring each of its constituent projects to include a specific environmental and social management component, as is already the case, for example, for Bank-financed state-level sustainable tourism development projects (Prodetur) in Brazil.

9. The use of management firms or "gerenciadoras" to strengthen project coordination (used in Prodetur as well as in the Procidades operation in Curitiba) should be replicated in other Procidades projects as a way of strengthening their environmental and social safeguards' application and oversight, as well as their coordination and management more generally.

10. The methodology for environmental and worker health and safety performance monitoring and control currently being used for all Procidades investment subproject contractors is an example of best practice and, as such, should be widely disseminated among and ideally applied in other Procidades projects, as well as in Bank investment projects in all relevant sectors in Brazil and other borrowing member countries.

11. Within the Bank, Procidades represents an innovative initiative in terms of the decentralization to a field office of project preparation and analysis, as well as monitoring, supervision and ex-post evaluation, and,thus also provides a rich internal learning experience in this regard. Accordingly, the efficiency and effectiveness of

this arrangement should be independently assessed with an eye toward its possible use in similar urban development programs in other Bank client countries.

12. The assembly of an experienced multi-disciplinary Procidades coordination team in the Bank office in Brasilia is itself an example of good practice that could be replicated for other multi-project urban development and multi-sectoral programs elsewhere. It is thus essential that this team continue to work with the human, financial, institutional and other resources required for it to be able to give adequate attention to the multiple challenges entailed in program implementation. This may involve an increasing number of individual projects, which should see strong Bank management and operational back-up support, including with respect to its environmental and social management and sustainability aspects.

2. Introduction

Over the past several decades, the Inter-American Development Bank (hereafter "the Bank") has gained considerable experience with regard to the promotion of urban development in Brazil through multi-sectoral and global multiple works projects at the municipal level. This has also entailed a valuable learning process with respect to the challenges in environmental and social planning and management associated with urban development in the country. As a result, much of what the Bank is currently doing in connection with its extensive urban development portfolio in Brazil can be characterized as good practice. This is particularly the case in terms of its reliance on strategic planning at the local level and in the ways in which environmental and social considerations and components have been integrated — or "mainstreamed" — into project and design and implementation. Based on a review of pertinent documents, interviews with Bank staff and selected borrowers, and field visits to one completed and two advanced active Procidades projects in the states of Parana and Mato Grosso do Sul in February 2013, the purpose of this paper is to summarize these features of the Bank's approach to urban development in Brazil, to briefly describe how this approach has evolved over time and to identify a few areas where possible improvements might be useful.

3. Evolution of the Bank's Involvement in the Urban Sector in Brazil

The Bank has supported urban development activities in Brazil at least since the early 1980s, through an Intermediate Cities Project in the state of Minas Gerais,[1] though this assistance has stepped up significantly and become highly diversified since the early 1990s. The Bank has been involved in important projects to improve urban water supply and sanitation in major cities, such as Belem, Fortaleza, Salvador and Manaus,[2] among others, including for pollution abatement in major urban water bodies such as Guanabara Bay in Rio de Janeiro,[3] the Tiete River in Sao Paulo[4] and the Guaiba Lake near Porto Alegre in Rio Grande do Sul,[5] among others. It has also been involved in a number of tourism development projects that have also contained local urban development investments.[6] However, most generally, the Bank's support has primarily taken the form of three other types of urban development operations, for urban transport,[7] slum (*favela*) and/or low-income neighborhood upgrading[8] and municipal development, particularly in the state of Parana.[9] As a result, the Bank has become the principal source of external financing and technical support for urban development operations in Brazil.[10]

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[1] This project involved two Bank loans for a total of US$60 million and was approved in August 1982. This was the first Bank-supported urban development operation in Brazil since two housing projects were financed in the early and mid-1960s.

[2] A US$145 million loan for drainage and road improvements in Belem was approved in November 1991; a US$199.2 million loan for sanitation in Fortaleza in September 1992; a US$264 million loan for basic sanitation in the Baia de Todos os Santos (Salvador) in September 1995; and a US$140 million loan for the first "Igarapes de Manaus Environmental-Social Project" in November 2005, which was followed with a second loan of US$154 million in August 2006.

[3] A US$350 million loan was approved for this purpose in November 1993; a second one of US$451.98 million, for environmental sanitation for municipalities in the Guanabara Bay area (PSAM), was approved in November 2011.

[4] There have been three Bank loans for "decontamination of the Tiete River": an initial one of US$450 million, approved in November 1992; a follow-on loan of US$200 million, approved in October 1999; and a third one of US$600 million, approved in November 2009.

[5] A US$132.3 million loan was approved to support the Guaiba Lake Environmental Recovery Project in October 1993.

[6] See Redwood, 2013 for a more detailed discussion of these projects, which likewise involve interventions at the municipal level, although in Prodetur, the Bank loans themselves go to state rather than municipal governments.

[7] For example, a US$420 million loan to support the Urban Train System in Sao Paulo, including for construction of a new line in the subway system, approved in November 1994; and a US$120 million loan for Urban Transport, including major road/busway improvements, in Curitiba approved in July 1995.

[8] For example, the US$180 million loan Rio de Janeiro Urban Upgrading Program — better known as "*Favela Bairro*" — approved in November 1995, for which a second loan of US$180 million was approved in March 2000; and the US$150 million loan for the Sao Paulo Favelas Rehabilitation Program approved in July 1996. A US$100.4 million loan for "downtown rehabilitation" was also approved for Sao Paulo in October 2003, and a US$46.5 million loan for "environmental rehabilitation" in Belo Horizonte in June 2004.

[9] The first such operation, which followed and essentially gave continuity to an earlier World Bank-financed Parana Market Towns Project, was a US$249 million loan to the state of Parana, better known as "*Parana Cidades*"

Thus, the Bank has since the early 1990s had considerable experience in Brazil with a comprehensive range of types and aspects of urban and municipal development, including in pursuit of environmental sanitation and social development objectives. Reflecting this broad experience, in more recent years these various types of multi-sectoral interventions have now come together, albeit with certain limitations, through a national program financed in part with a Bank-supported credit line called Procidades. Consequently, much of the Bank's present urban development portfolio in Brazil, which continues to be extensive, consists of Procidades projects through direct loans to municipalities of various sizes in order to help finance priority investment subprojects and institutional strengthening activities as identified in local development plans, known in Brazil as "*Planos Diretores*." The balance of this report will first provide an overview of the Procidades program more generally, then focus on the three specific Procidades projects recently visited by ESG — Toledo and Curitiba in the state of Parana and Campo Grande in the state of Mato Grosso do Sul — in order to highlight elements of good practice in each one.

This will necessarily be only a partial yet largely indicative examination of the Procidades experience to date, as each individual project under this national program contains its own unique design characteristics, implementation challenges and emerging results. It will, however, hopefully serve to illustrate the rich experience that participating Brazilian cities and the Bank are accumulating through this innovative set of projects, as well as suggest ways in which environmental and social management and sustainability concerns are being incorporated in some of them. The cities visited by ESG, which were selected in consultation with local Bank project supervision team leaders and in one case (Campo Grande) visited together with a Bank supervision mission, met three essential criteria:

(i) they involved cities of different sizes and institutional complexity: Curitiba is a large state capital, Campo Grande a mid-size state capital and Toledo a smaller non-state

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approved in February 1996, which was followed up by a second loan of US$100 million for this purpose to the same state, approved in June 2002.

[10] The World Bank was very active in support of urban, including metropolitan, development projects in Brazil in the 1970s, '80s and '90s. However, in more recent years, its assistance has focused primarily on metropolitan transport projects. This has included, for example, assistance to the subway system in Sao Paulo and, to a lesser extent, urban environmental management (e.g. for Sao Paulo, Curitiba and Belo Horizonte), as well as secondary city development. Such secondary development has included slum upgrading (as in Ceara, which was also initially combined with a state water resource management project) and support to the urban water supply and sanitation, housing and solid waste management subsectors. These works have followed a limited number of environmental management projects for specific municipalities, such as Betim in the Belo Horizonte metropolitan area.

capital city, and therefore, they are representative at least in this sense of the broader universe of Procidades municipalities;

(ii) project implementation had either recently been completed (Toledo) or was well advanced (Campo Grande and Curitiba); and

(iii) they had different features that were of particular interest from an environmental and/or social management and sustainability standpoint, which will be discussed in some detail in the individual sections below.[11] All Procidades projects were also approved after the Bank's current environment and safeguard compliance policy (OP-703) went into effect in July 2006.[12]

4. Procidades — Principal Program Design Features and Environmental and Social Management Aspects

The Bank's Board of Directors approved the credit line for Procidades on October 11, 2006, and a document containing the changes in its Operating Regulations as agreed at that time was issued on December 29 of that year. According to this document, the general objective of the proposed credit mechanism is "to make the Bank's action at the municipal level more dynamic and the preparation and approval of projects more agile, on the basis of the principal of operational decentralization."[13] The resources initially allocated to this mechanism were US$800 million. More specifically,

> Procidades will finance integrated municipal development programs, with emphasis on territorially focused actions. The programs should be part of a municipal development plan that considers general priorities and prioritize the sectors with the greatest social and economic impact, preferably oriented to low-income populations. To achieve this objective, Procidades will finance: (i)

[11] ESG had also initially proposed visiting one or more Procidades projects in Northeast Brazil, specifically Recife and/or Fortaleza, where local institutions are normally weaker. However, this proved inappropriate because of very recent or imminent changes in the local project coordinators and technical teams in both of these cities. These were due to changes seen in all local government administrations in Brazil on January 1, 2013, following the municipal elections (i.e., for mayors) in October and November 2012. Nevertheless, this did not significantly affect the project in Toledo, which was already closed, nor — except for the project coordinators — the local teams in Curitiba and Campo Grande. Still, ESG was able to meet with the former project coordinators in both Toledo and Campo Grande during its visits to these cities in February 2013. The project in Fortaleza, which was approved in November 2009, is not technically a Procidades project due to the size of the corresponding Bank loan (US$59.4 million), but it shares many of the other characteristics of these operations.

[12] See IDB, 2006a. This policy was formally approved by the Bank's Board of Directors on January 19, 2006.

[13] See Executive Summary, para. 1, pg. 1, in IDB, 2006b. My translation from the original Spanish.

> investments in integrated urban development oriented to improve the services and infrastructure of the cities;[14] and (ii) the strengthening of the municipalities with the aim of increasing their efficiency, improving their performance, and broadening their capacity to supply local public services.[15]

Bank loans for the individual Procidades projects, however, were limited to a maximum of US$50 million, but they could be financed through the use of local currency (i.e., Brazilian reais). In order to put in place the "agile operational and organizational scheme" mentioned in the general objectives of the program above, the Bank delegated to its Representation, or Country Office, in Brazil the principal responsibility for the preparation and processing of the Procidades projects, "thereby increasing the Bank's capacity to respond to its clients as a function of the proximity of the Representation to the instances of federal decision making and to the municipalities themselves."[16] This decentralization of responsibility to the field in and of itself represents an important innovation in the way the Bank had traditionally managed urban development projects, and Bank operations more generally, in Brazil (and elsewhere), whereby Headquarters staff were normally responsible for these activities. The Bank would strengthen the capacity of its field office in Brasilia for the "preparation, processing, monitoring and supervision of these operations," both by setting up a Procidades technical and operational coordination team in the Representation and by utilizing "specialized support at Headquarters, complemented by the contracting of local technical service providers." It was likewise proposed that approval of the individual Procidades operations be delegated by the Board to the Bank's President, which according to the originating document "follows the same delegation principal for global credit projects financed by the Bank."[17]

The main text of this document begins by observing that there were over 5,500 municipalities in Brazil in 2004, including 14 with more than a million inhabitants each, collectively concentrating nearly 21% of the country's population, and around 650 municipalities with populations between 50,000 and 1 million, which contained another 44% of this total. Cities between 100,000 and 500,000 increased in number from just 40 in 1970 to 194 in 2000, housing

[14] Except for the large ones, most municipalities in Brazil have both rural and urban areas. In the case of at least one of the earliest Procidades projects (that for Toledo, Parana), investments in rural areas, and specifically for rural road improvements, were included as part of the operation (see the section on this project below for additional details).

[15] IDB, 2006b, Executive Summary, para. 2, pg 1.

[16] *Ibid*., Executive Summary, paras. 3-4, pg. 1.

[17] *Ibid.,* Executive Summary, paras. 4- 5, pg. 1 and paras. 5.1- 5.11, , pp. 22-24.

35% of the national population in the latter year, reflecting the increasing urbanization of the country over these decades in general and the above-average growth of intermediate-sized urban areas in particular, especially after 1980.[18] This rapid urbanization, however, has been accompanied by an insufficient supply of physical infrastructure and basic services, an increase in urban poverty in absolute terms and a range of associated social and environmental problems, especially in the largest cities and metropolitan areas. According to this report, moreover, "experience has demonstrated that interventions at the municipal level are more effective when they are integrated, since this way it is possible to combine actions of a social character with physical interventions and others that contribute to more complete solutions to local problems. This means that concentrating attention on urban problems as a whole constitutes a public management strategy that improves the efficiency of investments compared with what can be achieved with a strictly sectorial approach."[19]

The proposed new credit mechanism was also a response to the fact that creditworthy municipalities could become direct borrowers from international financial intermediaries such as the Bank, with federal government guarantees. According to the analysis undertaken by the Bank, the types of municipalities likely to be eligible for financing under this mechanism were those with populations between 50,000 and 1 million and an indebtedness capacity of up to US$50 million. Thus, the purpose of the new credit line would be to "attend municipalities of medium size that have indebtedness capacity and wish to establish a more direct relation with the Bank, in such a way that they have more timely access to Bank resources, including technical assistance in the area of urban development."[20] This represented a significant break with previous Bank support to urban development projects in Brazil, which were either through loans to states, such as in the case of the earlier *Parana Cidades* projects, or the federal government, as in the case of the national housing program, *Habitar Brasil*, and the National Program to Improve Municipal Fiscal Administration (PNAFM).[21] More specifically, the Bank affirmed that the number of municipalities with an indebtedness capacity superior to US$50 million was "reduced" and concentrated among the state capitals and metropolitan areas, but that around 300

[18] *Ibid.,* paras. 1.1-1.3, pp. 1-2. In contrast, urban population growth was fastest in the large metropolitan areas, above all Sao Paulo and Rio de Janeiro, in the 1970s and '80s.

[19] *Ibid.,* para. 1.6, pp. 2-3.

[20] *Ibid.,* para. 2.17, pg. 6.

[21] This refers specifically to a US$300 million loan approved in August 1999 to support this program.

municipios among those with between 50,000 and 1 million inhabitants had indebtedness capacity of up to US$50 million and collectively could contract financing of an estimated sum of about US$5.5 billion, representing a potentially significant new market for the IDB.[22]

As observed above, Procidades is designed to finance integrated municipal development projects that are based on existing local development plans. The following "lines of action" would be given priority for the use of its resources, according to the Bank proposal document, "investments in integrated urban development that consist in geographically focused multi-sectoral programs implemented in a coordinated fashion that contribute to the solutions of the needs of urban spaces and specific populations, comprehending the following modalities:

Neighborhood improvement

Programs designed to the needs of populations in low-income neighborhoods with integrated multi-sectoral investments in urban infrastructure and services (basic sanitation, road system, drainage, trash collection, environmental protection, relocation of families and others), social services (schools, health posts and day care centers, among others) and land tenure regularization.

Urban rehabilitation and revitalization

Programs designed to reverse processes of physical and economic deterioration of specific areas, strengthen their urban functions and recover their historical and cultural heritages. They include investments in physical infrastructure (road system, sanitation, rehabilitation of buildings, housing, relocation of population and parks and public spaces, among others), and urban and social services.

Urban consolidation and territorial interventions with a sectoral emphasis

Integrated programs designed to complete urban and social infrastructure and services in specific areas within cities. They also include interventions with a social emphasis, such as education, health, nutrition and others, as long as they are conceived as part of integrated urban interventions.

Sectoral interventions

[22]IDB, 2006b, para. 1.18, pg. 6.

In transportation and urban road systems, sanitation, urban services, **environmental management, social development** and others — as long as they are part of a municipal development plan or an integrated urban investment program and preferably complement integrated urban interventions.

Municipal strengthening

Including activities oriented to strengthen and improve municipal performance in terms of financial and tributary administration, internal management, municipal service delivery, urban planning and actions to promote local economic development. The program can also finance administrative, engineering and auditing expenses, as well as those for the implementation of monitoring, supervision and evaluation."[23]

The Operating Regulations (ORs) for the program, in turn, were elaborated in order to provide guidance regarding eligibility and other requirements to municipalities interested in requesting funding under Procidades. They also indicate the "eligible sectors and projects and the corresponding technical, economic, **environmental, social**, legal, institutional and financial eligibility criteria" for such projects, together with the project processing and execution cycles, and the **environmental control system**, whose characteristics, except for the "environmental control system" are also summarized in the *Procidades Propuesta* document. The Bank would initially allocate US$800 million for this credit line, but this amount could be "renewed" with previous authorization of the Board of Directors once 75% of its resources (US$600 million) had been committed to individual projects approved by the Bank in the form of signed loan agreements.[24]

In addition to the US$50 million limitation for individual loans to specific municipalities under the program, other general project eligibility criteria were: (i) the project must be part of a Municipal Development or Investment Plan; (ii) the project must include, when identified, "strengthening activities" designed to improve the institutional and financial performance of the municipality; (iii) the executor or operator (i.e., the municipal government) must have the technical and financial capacity to adequately operate and maintain the works and services financed by the program; (iv) the projects must be consistent with the applicable policies and

[23] *Ibid,* paras. 2.4-2.7, pp. 9-10. My emphasis.
[24] *Ibid.,* para. 3.5, pg. 11. My emphasis.

sector strategies of the Bank; (v) the project must not be considered to be of high potential to cause environmental damage (Category A), as defined by the Bank's Environment Policy; and (vi) the municipality must meet the investment, operation and maintenance cost recovery criteria established in the ORs.[25]

The "technical criteria" for project preparation were also detailed in the ORs. The ORs also detailed the types of investment that would be eligible for financing under the program for each of the following categories and subcategories:

(i) **integrated urban development**: neighborhood improvement, urban recuperation and revitalization and urban consolidation and sectoral interventions with a territorial basis;

(ii) **transport and urban road systems**: collective transport, road system and road safety;

(iii) **urban sanitation**: potable water systems, sewerage systems and stormwater drainage;

(iv) **urban services**: integrated solid waste systems and public illumination;

(v) **social development**: health, education and social development (defined as "actions to complement the infrastructure and improve the quality of services to attend young children and specific vulnerable groups, such as adolescents in situations of social risk, persons with disabilities, the elderly, etc.");

(vi) **environmental management**: management and recuperation of parks and protected zones; air, soil and water pollution control; protection and recovery of beaches and watersheds; environmental education; and resettlement plans and projects;

(vii) **tourism promotion**: development of the tourism sector; and

(viii) **institutional and financial strengthening** — financial and tributary strengthening, administrative management systems, municipal public service management and urban planning and promotion of local development.[26]

The project processing cycle within the Bank once a municipality's application for financing under Procidades has been approved by the Brazilian federal government would in turn

[25] *Ibid.,* para. 3.7, pg. 12. In addition, in order to be eligible for financing under the program, the project had to be previously approved by COFIEX, the External Financing Commission of the Brazilian Federal Government, in the form of an approved "consultation letter" (*carta consulta*).

[26] IDB, 2006c, para. 2.4 and following Box, pp. 4-9. Emphasis mine. The OR also observed that any projects or services not identified in this Box would only be eligible if previously approved by the Executive Vice President (EVP) of the Bank (para. 2.5).

involve preparation of a project concept document that, among other requirements, would contain a summary of the project's "environmental and social strategy." Once this document were to be approved by Bank management, the team would proceed to assist the requesting municipality with project preparation, including a "feasibility and risk analysis" that would entail, among other analyses, "an institutional, socio-economic, financial and environmental evaluation of the benefits, beneficiaries and risk management." The respective project evaluation document would be "prepared by the [Bank] project team on the basis of the information and the analyses prepared by the *municipio*, considered by an internal committee within the Bank's Representation, and approved by the Resident Representative in Brazil. Following this, the terms of the loan for the project would be negotiated with the municipality, which together with the final project document would be submitted through the Executive Vice President's (EVP's) office for approval by the President of the Bank. [27]

Once the loan is signed by the municipality, which is entirely responsible for its execution, and the project begins implementation, the Bank becomes responsible for its technical and financial supervision with the assistance of a "provider of technical support."[28] It was initially anticipated that the Caixa Economica Federal (CEF) would be the program's provider of technical support, both to the individual beneficiary municipalities for purposes of project preparation and later to the Bank for purposes of project supervision.[29] However, this arrangement did not materialize in practice and the Bank has had to depend on other providers, including individual consultants, for these services.

It is also noteworthy that **neither the *Procidades Propuesta* document nor the ORs provide specific information regarding the environmental and/or social management of the projects under the program.** In fact, there is no mention of this at all in the ORs, except with respect to the non-eligibility of Category A projects, in accordance with the Bank's environmental policy as one of the general eligibility criteria for such operations, although it is affirmed in a footnote that "the projects of the Procidades mechanism should obey the directives

[27] *Ibid.,* paras. 3.3-3.6, pp. 12-15.

[28] *Ibid.,* para. 3.14, pg. 15.

[29] This expectation, in fact, was explicitly mentioned in both the IDB, 2006b (para. 1.26, pg. 9) and the accompanying ORs, which specifically define Caixa Economica Federal (CEF) as "the organization of federal public administration that will act as the provider of services to IDB in the supervision of municipal programs." *Ibid.,* para. 1.2, pg. 2.

and safeguards of the Bank's Environmental Policy (document GN-2208)."[30] The Bank's Environment and Safeguards Group (ESG) later made up for this initial program design shortcoming[31] through elaboration of a *Socio-Environmental Manual for Procidades* (hereafter "Procidades ESMM"), which was finalized in October 2009. This Manual is generally similar both in purpose and nature to that developed by the federal Ministry of Tourism with the assistance of a Bank environmental consultant for the similarly Bank-supported subnational, multi-sectoral, global multiple works National Tourism Development Program,[32] known as *Prodetur Nacional,* which is the subject of a parallel good practice case study.[33] However, it has not been formally annexed to the ORs for the program, as was the case with Prodetur, but rather is an internal learning document.[34]

The Procidades ESMM begins by observing that "since 2006, the IDB has been implementing its Environment and Safeguards Policy (OP-703) that, together with other sectoral policies, has as its purpose to strengthen the Bank's commitment to the socio-environmental sustainability of its operations." It adds that "a set of guidelines and instructions consistent with best practices undertaken by member countries and international financial institutions complement and facilitate compliance with the directives of these policies."[35] This, in turn, is part of the Bank's broader "Sustainability Initiative"[36] and "Sustainability Agenda,"[37] which seek

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Ibid., footnote 1 on page 10. It goes on to state, more specifically that "only projects in Categories B and C, according to what is established in section B.3, 'Screening and Classification,' para. 4.17 of this policy. The projects in Category B are operations that could cause negative environmental and social impacts that are localized and of short duration, for which known mitigation measures are known. Those in Category C are those that do not cause environmental and social impact or result in a minimal impact."

[31] In fact, it was elaborated by a subgroup, or "cluster," for urban projects within ESG. The cluster describes itself as being "dedicated to promoting innovation and the development of innovative solutions, stimulate and document best practices with respect to the sustainability of cities, including the promotion of energy sustainability and energy efficiency." See IDB/ESG, 2009, para. 3, pg. 1. My translation from the original Portuguese.

[32] See Ministerio de Turismo.

[33] See the reference in footnote 6 above.

[34] Personal communication from Denise Levy, April 2013.

[35] IDB/ESG, 2009*,* para. 1, pg. 1.

[36] *Ibid.,* para. 2, pg. 1. In a footnote, this document further describes this initiative in the following terms: "The IDB's Sustainability Initiative comprehends implementation of a coherent set of criteria that orient its operations, expressed in the Environment and Safeguards Compliance, Disaster Risk, Indigenous Peoples, Involuntary Resettlement, and Information Disclosure Policies."

[37] This agenda is described in another footnote on the same page as "the Bank's commitment with respect to the following aspects: improvement of governance, strengthening of relations with stakeholder groups, improved socio-environmental management, increasing its portfolio of investments in sustainability, expansion of knowledge and learning, and reduction of environmental 'footprints'."

primarily to "reinforce the management capacity of [the Bank's] client countries in both the public and private sectors."[38]

The Manual was intended primarily to orient field staff as to how Bank safeguard policies and other pertinent policies should be applied in the planning, preparation and implementation of Procidades operations. It had as it is declared objective "to ensure that the projects undertaken within the context of Procidades are elaborated according to the standards required by the Bank, that the relevant documents for each stage of the project cycle incorporate the requirements and recommendations of the aforementioned Bank policies, and that they are executed in compliance with these safeguards." As such, this ESMM provides a "succinct description of the principal elements of Procidades and a synthesis of the Bank's sustainability policies as well as of the institutional and legal context in which these projects should be planned and implemented." The Manual also contains "the criteria and actions necessary to evaluate the feasibility of each individual Procidades project and the technical guidelines and instructions for the elaboration of the documents and socio-environmental management of the distinct phases of the project cycle."[39]

The Manual also lists the same general types of eligible investment subprojects as in the *Propuesta* (integrated urban development, transport and urban road systems, urban sanitation, etc.) and indicates the non-eligibility of investments whose potential environmental impacts would cause them to be classified in Category A under OP-703. It then provides an overview of this policy, observing *inter alia* that "all the operations should be previously assessed and classified in accordance with their potential environmental impacts," and further observing more specifically that "the assessment will be undertaken during the initial stages of the project preparation process **and will consider the positive and negative direct or indirect, regional and cumulative impacts, including the social and cultural impacts** related both to the operation *per se* and its associated installations."[40] It also affirms that, under OP-703, subproject classified in Category B (i.e., those that "can cause negative environmental and social impacts,

[38] The Manual also observes that to help implement these institutional activities, the Bank has an Environment and Safeguards Group within the Vice Presidency for Sectors (VPS/ESG), one of whose prime objectives is "to ensure that all of the Bank's operations are environmentally and socially sustainable, as required by the above cited Policy through the provision of high quality technical assistance and support to [Bank] project teams and clients, [thereby] contributing to the results of the Bank's investments and helping to solve emerging questions in the social and environmental field." (*Ibid.,* para. 2, pg. 1.)

[39] *Ibid.,* paras. 4-5, pp. 1-2.

[40] *Ibid.,* para. 2.5, pg. 5. My emphasis.

but which are localized, short-term, and for which effective mitigation measures are available") normally require "a socio-environmental analysis centered around the specific themes identified during the selection process, together with an Environmental and Social Management Plan (ESMP or PGAS — *Plano de Gestao Ambiental e Social* — in Portuguese), as compared with (ineligible in the case of Procidades) Category A investment subprojects that would require a full Environmental Impact Assessment (EIA) and an associated ESMP/PGAS."[41] The Manual also affirms, however, that "the environmental analyses of Category B projects (that do not require a full EIA)…should comprehend **an evaluation of the social and environmental impacts, as well as the environmental risks associated with the operation, indicating the measures necessary to mitigate and monitor them.**"[42] In addition, the Procidades ESMM clearly indicates that:

> The ESMPs should include: the conception and development of the projects; presentation of the **most important direct and indirect risks and impacts** of the project; **the environmental and social proposals to avoid, compensate or attenuate the direct and indirect impacts**; the institutional responsibilities regarding the implementation of these measures, including, if necessary, training and capacity building activities, the chronogram, and budget allocated for their execution; the program of consultation or participation, in accordance with what has been established for the project; the monitoring and supervision scheme for the environmental and social risks and impacts during project execution, including clearly defined indicators, supervision chronograms, institutional responsibilities and costs. **The ESMPs should be concluded for review [by the Bank] during the respective project analysis [or appraisal] missions.**[43]

The ESMM for the credit line also briefly describes the Bank's policies for involuntary resettlement, disaster risk management, indigenous peoples and information disclosure. The latter requires public disclosure of the following socio-environmental documents at different stages of the project cycle for each of the individual Procidades operations:

- Socio-environmental strategies, as part of the main text of or an annex to the Project Profile that will be made available after incorporation of the recommendations of the Environmental and Social Review (ESR) Committee and the Loan Committee;

[41] *Ibid.,* para. 2.6, pg. 5.

[42] *Ibid.,* para. 2.7, pg. 6. Emphasis mine.

[43] *Ibid.,* para. 2.8, pg. 6. Emphasis mine.

- The Environmental and Social Management Report (ESMR or RGAS in Portuguese) elaborated following the analysis mission (due diligence);
- Reports for the socio-environmental impact of the [individual] investment subprojects that include the respective ESMP/PGAS, as described above, which should also be the object of consultation as well as public disclosure;
- Supervision reports on project execution, available after internal processing within the Bank.[44]

The Manual next provides a synthesis of the "environmental institutional context" in Brazil, including the requirements for environmental licensing and the role of the state and municipal environmental agencies that normally have responsibility for environmental control of the types of investment subprojects eligible for being undertaken in the context of Procidades. It also observes that "the [environmental] control requirements foreseen in Brazilian legislation are compatible with the socio-environmental safeguard directives of the Bank, except with respect to the public consultation obligation for the implantation of Category B projects, which, according to the Information Disclosure (OP-702) and Environment (OP-703) Policies, in addition to publication of the request and concession of the environmental licenses required by national norms, should also undertake consultations with the affected groups."[45]

Investment subprojects that either use or interfere with watercourses also need to comply with the requirements of Brazil's water resource management legislation approved in 1997. In the context of Procidades more specifically, the majority of the subprojects that involve sanitation (i.e., water supply, sewerage and/or drainage), in addition to any other whose implantation can generate effluents or affect watercourses, would fall into this category.[46] Any subprojects that entail the "suppression of native vegetation or cutting of planted forest," in turn, also require prior authorization from the competent state agency, usually a state forestry agency linked to the state environmental agency.[47]

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[44] *Ibid.,* para. 2.21, pg. 9.

[45] *Ibid.,* paras. 2.26-2.27, pg. 11.

[46] *Ibid.,* para. 2.28, pg. 11. More generally, this includes investments for any of the following purposes: (i) capture of surface water or extraction of subterranean water for final consumption or as a production input; (ii) disposal of sewerage or liquid or gaseous wastes into water bodies; and (iii) exploitation of hydroelectric potential or other uses that alter the water quantity, quality or regime.

[47] *Ibid.,* para. 2.29, pg. 11.

The Manual then indicates the "socio-environmental directives" for Procidades projects, including the previously mentioned socio-environmental strategies as part of the Project Profile, specific guidelines for which are provided in an annex. The Manual also provides guidance for the preparation of the corresponding Environmental Assessment Report (or RAA in Portuguese) and for the public consultation process, in both cases in specific annexes, observing further that the "environmental feasibility of the project, to be determined during the Bank's analysis mission, should include the following elements:

- RAA, elaborated according to Terms of Reference formulated in partnership with the [beneficiary] municipality, but in accordance with the Bank's directives, focusing primarily on: the identification of potential negative impacts; their respective mitigation measures; and the Environmental and Social Management Plan (PGAS) for the project.
- The public consultation process with respect to the RAA, in compliance with the [Bank's] public information dissemination policy.
- Obtaining the environmental licenses[48] and any other applicable authorizations for all the civil works and investments to be undertaken.
- In case the project involved the removal of population, it is necessary to comply with the IDB's involuntary resettlement policy (OP-710), including elaboration of a resettlement plan in accordance with guidelines also provided in a separate annex."[49]

The project preparation process concludes with elaboration of the Loan Proposal (LP) document, which is also made publicly available after approval by the Bank. This document must include a section on environmental risks and safeguards, "which describes the environmental feasibility aspects, as well as the principal environmental measures or instruments of the project." In addition, as an independent internal Bank document or annex to the LP, an Environmental and Social Management Report (ESMR or RGAS in Portuguese) is elaborated. The ESMR/RGAS, more concretely, should "contain the basic information about the project and

[48] Under Brazilian legislation, three distinct types of environmental licenses are required at different stages of the project cycle: (i) the "Prior License" (*Licenca Previa - LP*), which is required in the planning stage of the investment; (ii) the "Installation License" (*Licenca de Instalacao — LI*), which authorizes the initiation of construction works; and (iii) the Operation License (*Licenca de Operacao* — LO), which authorizes functioning of the work or installation (*Ibid*., para. 2.23, pg. 10)

[49] *Ibid.,* para. 3.4, pp. 12-13.

the plan to prevent, mitigate, compensate, and monitor the negative socio-environmental impacts the project, including its PGAS, might cause." The Manual then notes that the objective of this report is to "demonstrate the feasibility of the project which is the object of the Bank operation by means of a summary of its environmental, social, health, safety and work aspects, and the presentation of the [associated] requirements for [Bank] financing."[50] Another annex provides specific instructions for preparation of the RGAS, which, in addition to providing a brief diagnosis of the area of influence and beneficiaries of the project and its institutional and legal framework, requires a "**synthesis of the environmental and social impacts of the project, including its health and safety impacts, during the construction, operation and maintenance phases, considering the direct and indirect positive (principally social benefits) and negative impacts, in addition to the environmental risks,**" and the corresponding proposed management and mitigation measures to address them.[51]

5. Overview of the Procidades Program to Date

As of February 2013, one Procidades project had been completed (Toledo, Parana) and fifteen were under various stages of implementation, involving total Bank commitments of over US$489 million. Another eight, entailing potential new Bank commitments of more than US$235 million, were at different phases of preparation.[52] The balance of this report will focus primarily on the one completed project and two others at advanced stages of implementation that were recently visited in the field by ESG (in the three following sections). However, this section will provide a brief overview of the completed and active Procidades portfolio as a whole, with the purpose of providing a rough idea of the variety of approaches to urban development taken and subcomponents being implemented in these projects. More specifically, leaving aside the three operations that will be considered in greater detail in the following sections of this report — Toledo, Campo Grande (Mato Grosso do Sul) and Curitiba (Parana) — the tables below provide a summary of the main components (and their corresponding estimated costs at appraisal) of the other 12 currently active Procidades operations. Seven of the active projects,

[50] *Ibid.,* para. 3.5, pg. 13.

[51] *Ibid.,* Annex V, sections 3-6, pp. 31-33. Emphasis mine.

[52] Specifically, these are prospective projects for the cities of Araraquara, Jundiai and Piracicaba in Sao Paulo; Cascavel and Londrina in Parana; Cachoeira de Itapemirim in Espirito Santo; Duque de Caxias in the metropolitan area of Rio de Janeiro; and the Federal District (Brasilia).

including those in Campo Grande and Curitiba, were considered to be in "full execution," six were in the early stages of implementation and three were awaiting loan signature, meaning while their loans had been approved by the Bank, they had not yet formally begun execution as of the end of January 2013.

Table 1 Procidades Projects under Full Execution as of February 2013

City/Costs (US$million)	Victoria (ES)	Belfort Roxo (RJ)	Ponta Grossa (PN)	Aracaju (SE)	Manaus (AM)
Approval Date	May 2008	May 2008	November 2008	March 2009	September 2009
IDB Loan	US$39.1	US$13.2	US$7.5	US$30.25	US$50.0
Slum Upgrading	US$41.1				
Urban Revitalization	US$7.45				
Integrated Urban Develop.		US$23.8		US$35.2	US$40.1
Drainage	US$7.5				
Urban Transport & Mobility			US$7.6	US$21.9	US$44.9
Education			US$6.3		
Institutional Strengthening	US$3.05	US$1.2	US$0.5	US$1.4	US$2.9
Administration & Management		US$1.3	US$0.4	US$1.9	US$7.5
Other Costs			US$0.006		US$4.4

Source: IDB Loan Proposal reports

As the above table suggests, Procidades projects vary significantly in size — from US$7.5 to US$50 million — and location, as do the size of the beneficiary municipalities. This subset includes three state capitals (Victoria, Aracaju, and Manaus) in different regions of the country (Southeast, Northeast and Norte, respectively) and two smaller municipalities: one in the metropolitan area of Rio de Janeiro (Belfort Roxo) and the other in the interior of Parana in close proximity to the metropolitan area of Curitiba. Together with Toledo (another city in the interior of Parana), Campo Grande (also a state capital), and Curitiba (both state capital and principal city in the metropolitan area of the same name), these were all part of the first group of cities to benefit under the Bank's Procidades credit line. The presence of three cities in the state of Parana in the first set of municipalities to participate in Procidades (as well as several others

subsequently) is not surprising, given the two earlier IDB-financed *Parana Cidades* operations referred to above.

Even though the table does not provide specific details of the various project components, which can rather be found in the respective Loan Proposal documents, it is nevertheless evident that they differ in terms of their specific investments. Yet all of them have (relatively small in terms of total cost) municipal institutional strengthening components, and most if not all — the situation in Victoria being somewhat unclear on the basis of the documentation available in the Bank's external website — have specific administration and management components or at least provide resources for this purpose. Three projects each out of the five surveyed above have integrated urban development components of some sort and urban transport and mobility components. These tend to receive the lion's share of project resources. On the other hand, one project each has a component for slum upgrading (Victoria), urban revitalization of a central urban area (also Victoria), drainage (again Victoria), and education (Ponta Grossa).

These differences are also reflected in the respective project names, which also tend to be different: (i) Victoria Urban Development and Social Inclusion Program; (ii) Belfort Roxo Urban Development and Environmental Sanitation Program; (iii) Ponta Grossa Urban Infrastructure Improvement Program; (iv) Aracaju Integrated Social and Urban Improvement Program; and (iv) Manaus Urban Development and Socio-environmental Improvement Program. This variation is in response to differing local urban investment and institutional strengthening priorities. As will be seen in the following sections, these comments apply equally to the Procidades projects in Toledo, Campo Grande, and Curitiba, to the Procidades projects in early stages of implementation and to those that have been approved by the Bank but whose loan agreements had not been signed by the end of January 2013, as summarized in Tables 2 and 3 below.

Table 2 Procidades Projects under Early Implementation in February 2013

City/Costs (US$million)	Maringa (PN)	Catanduva (SP)	Passo Fundo (RS)	Paranagua (PN)	Colatina (ES)	Novo Hamburgo (RS)
Approval	Feb. 2009	Nov. 2009	April 2010	March 2011	June 2012	June 2012
IDB Loan	US$13.0	US$8.439	US$9.8	US$16.50	US$11.0	US$23.91
Urban Trans. & Mobility	US$20.1		US$9.8	US$10.731		
Urban		US$3.3				US$33.403

Revitalization						
Urb. Devel. & Green Spaces			US$4.7			
Environmental Sanitation		US$9.9			US$17.595	
Drainage				US$5.0		
Local Econ. Development			US$1.1			US$5.403
Social Development				US$3.0		
Violence Prevention						US$1.849
Institutional Strengthening	US$0.7	US$1.5	US$0.9	US$4.0	US$2.395	
Studies		US$1.0				
Admin./ Management	US$0.7	US$0.9	US$1.6		US$2.02	US$4.66
Other Costs	US$3.8					

Source: IDB Loan Proposal and other documents

These projects also reveal a diversity of components, though the largest investments are still for urban transport and mobility, urban revitalization and environmental sanitation, including water supply and sewerage. However, it is interesting to note the presence of components for local economic development in two of the operations, both of which are in the state of Rio Grande do Sul (Passo Fundo and Novo Hamburgo), and for urban development and green spaces (also in Passo Fundo), as well as for social development (Paranagua) and violence prevention (Novo Hamburgo). All of these cities were also smaller than many of those in the first group above, none were state capitals (although this would change again with the most recently approved operations for Sao Luiz and Recife) and the loans were generally smaller. This undoubtedly reflects the lower indebtedness capacity of these municipalities, as compared with some of the cities benefited in the earlier projects, particularly Manaus, Victoria, and Aracaju, all three of which were somewhat larger in demographic (and economic) terms and were state capitals.

Table 3 Procidades Projects Approved but Not Yet under Implementation in February 2013

City/Costs (US$million)	Itajai (SC)	Sao Luis (MA)	Recife (PE)
Approval Date	June 2010	March 2012	November 2012

IDB Loan Amount	US$13.2	US$13.59	US$20.015
Urban Mobility	US$18.6		
Urban "Requalification"			NA
Housing Improvements		US$1.89	NA
Strategic Projects		US$21.7	
Institutional Strengthening	US$3.2	US$1.75	NA
Administration & Management	US$1.8	US$1.83	
Other Costs	US$1.0		

Source: IDB Loan Proposal and other documents (not currently available on external website for Recife)

It is somewhat surprising that the loan for Itajai, which was approved in mid-2010, had not yet been signed, while those for Sao Luis and Recife, both state capitals in Northeast Brazil were approved much more recently. It is likely that the municipal elections in October and November 2012 (the latter representing the second round if no candidate obtained a clear majority in the first round) and the inauguration of new mayors in January 2013 probably had had something to do with this. It is worth noting, moreover, that the Procidades coordination team in the Bank office in Brasilia is also responsible for supervision of the third *Favela Bairro* project in Rio de Janeiro, for which a loan of US$150 million was approved in August 2010. Also relevant are the facts that two earlier Procidades projects in the state of Rio de Janeiro were later cancelled[53] and that there are a number of other urban development projects in the Bank's portfolio in Brazil with loan amounts exceeding US$50 million. Such projects are not eligible for funding under the Procidades credit line given their size, but otherwise have generally similar characteristics, namely:

(i) the Macambira-Anicuns Urban Environmental Program for the state capital of Goias, Goiania, financed through a US$56.7 million loan, approved in April 2008;

(ii) the Urban Upgrading and Social Inclusion Program for Fortaleza, Ceara, also a state capital, financed through a US$59.4 million loan, approved in November 2009; and

(iii) the Sao Jose dos Campos (Sao Paulo) Urban Restructuring Program, financed through a US$85.67 million loan, approved in May 2010.

[53] Specifically, a US$26.47 loan for the Niteroi Urban Development and Social Inclusion Program and a US$34.5 million loan for the Comprehensive Urban Development Program for the Municipality of Niteroi, both of which were approved on December 14, 2007.

From the above tables, it is clear that the Bank is very actively involved in a broad range of urban and municipal development projects in Brazil, mainly through Procidades, though there are also several projects that are even larger in financial terms; still others are in the future pipeline. To help prepare and supervise this portfolio, the Bank now has a team of five specialists in the Brasilia office supported by local consultants, including at least one for the environment. The team also receives assistance from Headquarters, which includes help with environmental and safeguard matters. Therefore this is a largely decentralized activity — perhaps the most significant one in all of the Bank's current operations.

In order both to round out the picture with respect to the Procidades projects and to provide an overview introduction for the next three sections of this report, Table 4 presents the same type of information contained in the previous tables for the three cities and operations visited in February 2013. As in the other projects briefly reviewed above, these projects contain a variety of components. For the most part, the "other costs" segment refers to the expected costs of land expropriation for mobility and transport components (mainly road improvement for the latter), while "administration" costs also include those of engineering studies, as well as for project management *per se*.

Table 4 Procidades Projects Visited in February 2013

City/Costs (US$million)	Toledo (PN)	Campo Grande (MS)	Curitiba (PN)
Approval Date	February 2009	February 2009	November 2009
IDB Loan Amount	US$7.33	US$19.38	US$50.0
Mobility and Transport	US$6.7	US$26.2	US$33.2
Urban Revitalization		US$5.0	
Slum Improvement			US$27.4
Social Development	US$3.6		US$21.7
Environmental Improvement	US$2.1		
Institutional Strengthening	US$0.7	US$1.4	US$1.6
Administration	US$0.6	US$2.2	US$5.5
Other Costs	US$1.0	US$3.25	US$10.4

Source: IDB Loan Proposal documents

6. The Toledo (Parana) Sustainable Socio-Economic Development Project

The project for Toledo in Parana and that for Campo Grande in Mato Grosso do Sul were the third and fourth Procidades operations to be approved by the Bank, following the ill-fated ones

for Niteroi and Nova Iguacu (Rio de Janeiro). These had been approved in December 2007 but were later cancelled and thus never implemented. The project in Toledo, moreover, was the first — and thus far only one — to be completed; this took place in February 2012. According to the Loan Proposal document,

> the *Município* of Toledo, covering an area of almost 1,200 km2, is located in Brazil's Southern region, in the western part of the State of Paraná near the Paraguay border and 540 km from the state capital, Curitiba….According to 2007 estimates by the Brazilian Institute of Geography and Statistics (IBGE), the city has a population of 108,000 and has registered an average annual population growth of 7.8% since separating from the *Município* of Foz do Iguaçu in 1951. Toledo offers a good quality of life, with high social indicators for health, education and safety. Only 16% of families earn incomes equal to or below the minimum wage. The employment rate is 88.8%, the second highest in Paraná's western region and the third highest in the state. These conditions reflect a social structure in which there are fewer inequalities than is common in most of Brazil. Between 1991 and 2000, the municipal human development index (MHDI) rose from 0.751 to 0.827, placing Toledo at a high level of human development and ranking it above the HDI for both the State of Paraná (0.787) and Brazil (0.800 in 2005). Compared with Brazil's 5,507 other municipalities, Toledo is ranked 154th, placing it among the top 3% in the country and third in the State of Paraná. The education indicator of 0.927 is even higher, and puts Toledo at par with countries such as Argentina and Chile, the two best-positioned Latin American countries in the UNDP world ranking.[54]

The LP goes on to observe that "the *município's* economy is based on agriculture and agro-industries" and that "within the western region of Paraná, Toledo also remains an important service center," with agribusiness being its primary source of income.[55] It then summarizes the municipality's priorities with respect to social development, urban and environmental preservation, and to rural and urban mobility. It notes further that Toledo's Master Plan indicates that the "goal of the city's development and urban expansion policy is to ensure the full development of the social functions of the *municipio* and of urban property." This policy

[54] IDB, 2008, para. 1.1, pg. 1.

[55] *Ibid.,* para. 1.2, pg 2. It notes further that its success is "due to two factors: the verticalization of the livestock and industrial sectors; and the techniques and technologies used in agricultural production, based on mechanized cultivation coupled with soil conservation through microwatershed systems, the introduction of new varieties, and the adoption of direct planting throughout the *município*. The main agricultural products are soybeans, corn and wheat…The most common livestock are pigs, dairy cattle, poultry and fish. Latin America's largest slaughterhouse and pork processing plant is located in Toledo. The same facilities are also used to process poultry and are the largest of their kind in Paraná."

contains 17 guidelines, of which the following are considered by the Bank to be particularly relevant for the present operation:

(i) provide urban and community facilities and transportation and public services that meet the interests and needs of the population and local characteristics;

(ii) integrate urban and rural activities in a complementary manner while giving consideration to the *municipio's* socio-economic development; and

(iii) **protect, preserve and restore the natural and man-made environment and cultural, historic, artistic and archaeological heritage**."[56]

The LP likewise summarizes the "Bank's strategy and lessons learned in the sector," observing more specifically that:

> [t]he proposed program meets the conditions, eligibility criteria and investment sector requirements of the PROCIDADES lending facility….[approved by the Bank's Board of Executive Directors on 11 October 2006.] Its design is based on the Bank's experience with multi-sector urban development programs such as Paraná Urbano I (loan 0917/OC-BR) and II (loan 1405/OC-BR). The program also capitalizes on the Bank's experience in improving low-traffic rural roads under the CCLIP program to improve road accessibility to small municipalities (ProAcesso-LHDI) in Minas Gerais (loan 1709/OC-BR). These lessons include the importance of community participation to guarantee the sustainability of improvements; the need for creativity in finding sustainable, low-cost technical solutions that ensure the economic profitability of road projects; and the need to have designs and construction plans in place from the start, in order to prevent delays and cost overruns during project execution.[57]

The project's general objective was to "enhance the quality of life of residents of the *Município* of Toledo and contribute to increased economic competitiveness through the financing of investments in basic and social infrastructure that increase the quality and coverage of services for the general population, as well as actions to improve municipal management." Its specific objectives were to:

(i) consolidate and expand education and social assistance services and sporting areas;

[56] *Ibid.,* para. 1.13, pg. 5. Emphasis mine.

[57] *Ibid.,* para. 1.14, pg. 6

(ii) improve public spaces and **upgrading urban facilities designed to protect the environment** and foster community living;

(iii) improve mobility conditions in freight and passenger transportation; and

(iv) improve the efficiency of the *município's* administrative management.[58]

These objectives were to be achieved through implementation of the following components and subcomponents:

Engineering studies and administrative expenses (US$0.6 million)

These include (i) feasibility studies, engineering and design of necessary projects during program preparation and execution; (ii) logistical expenses incurred by the program execution unit (PEU); and (iii) expenses allocated for the environmental management of the program, as well as for supervision, monitoring and measurement of indicators for the midterm review and logical framework.

Social component (US$3.6 million)

This will finance investments in additional social infrastructure to consolidate and extend coverage of education, social assistance, sporting and recreational services. Specifically, it will finance construction and equipment for the Santa Clara IV School;[59] construction and equipment for the Jardim Panorama Social Assistance Center;[60] expansion, renovation and equipment for the Alcides Pan Sports Gymnasium;[61] and construction and equipment for the Rhythmic Gymnastics and Martial Arts Training Center.[62]

[58] *Ibid.,* para. 2.1, pg. 6. Emphasis mine.

[59] This school was expected to serve approximately 400 students from this neighborhood without a municipal school who currently must attend other schools far from their homes. The school was also expected to improve conditions at other schools in the Vila Pioneiro, Jardim Europa and Jardim América neighborhoods, which are overcrowded due to enrollment by children from the underserved area.

[60] This center was expected to serve some 500 low-income children between the ages of 7 and 14 from the Vila Panorama, São Francisco and Cerâmica Prata neighborhoods through before- and after-school activities focused primarily on educational reinforcement.

[61] This facility was dilapidated, without safe and functional facilities accessible to users. Prior to the project, the sports center had a capacity of 3,000, which is expected to rise to 5,000 with the proposed expansion, enabling it to host events for a larger number of participants. It was also expected to benefit around 5,000 people per month through sporting and recreational activities and community events.

[62] This center was expected to serve some 900 athletes receiving formal training and more than 1,500 children and teenagers participating outside of regular school hours each month. It was hoped that it would make Toledo a center for rhythmic gymnastics, martial arts, capoeira and other alternative sports.

Environmental component (US$2.1 million)

This would finance environmental renewal interventions in the city's strategic natural areas and public spaces, in order to enhance the quality of urban life and the natural and cultural landscape. This includes construction of the North Perimeter Park and urban renewal and rehabilitation of Willy Barth Plaza[63] and a strip of park along the Panambi Creek.[64] With these works, the *município* will increase the city's preserved green areas by almost 400,000m^2. As a condition precedent to the procurement of works for the Sanga Panambi Park Strip, the Bank must approve the Urban Environmental Renewal Plan submitted by the PEU for the special use zone and permanent preservation area.[65]

Mobility and transportation component (US$6.7 million)

This would finance infrastructure works to improve the *município's* roads, both in the urban area of the city of Toledo and in the rural area near the urban fringe. It has therefore been divided into two subcomponents:

(i) **Paving rural roads** is a multiple works subcomponent to pave approximately 39km of rural access roads considered a priority for exports and vertical integration of the *município's* agribusiness. This will enable inputs and products to be transported throughout the year, while lowering transportation costs.[66]

[63] Willy Barth Plaza is a public space in downtown Toledo that had historical importance for the city's residents. Since 1951, this space has been used for public meetings. Starting in 1999, the community had requested at public meetings that the park be remodeled. Works would include better handicapped accessibility, pedestrian safety, repaving, street furniture and landscaping.

[64] The North Perimeter Park has a lake and will offer infrastructure such as restrooms, tables, public lighting, a bicycle path, four walking paths, exercise areas near the walking paths and near one bicycle path, a recreational area near the lake, a playground and an outdoor amphitheater. Works will also be carried out to protect and restore the banks of the Marreco River. The internal road system was designed exclusively for the park, and there is no through traffic. This project is part of the *município's* ecological park system ("Park Paths"), being implemented under its 2006 Master Plan, and signals Toledo's northward urban expansion. The landscaping and environmental work on a section of the Sanga Panambi Park Strip includes the conservation and rehabilitation of springs, construction of walking/ bicycle paths, installation of public lighting and sporting areas and works to protect and drain springs and rainwater runoff.

[65] Before any one of the interventions mentioned in the previous footnote is carried out, the program calls for the preparation of an Urban Environmental Renewal Plan for the special use zone and permanent preservation area established in the Master Plan. This plan would develop a comprehensive execution strategy for the "Park Paths" project, consistent with the budgetary resources available in the medium term and the legal procedures for purchasing the land.

[66] The subcomponent description also observes that "since all of the agricultural land within the *município* has been adapted using the microwatershed system to protect soil from water erosion, the road grade follows the natural topography of the land, eliminating the need for cross drainage, with the exception of crossings over natural

(ii) **Improving the urban road network** also includes multiple works to be carried out in the city of Toledo, with the exception of the North-South Corridor, which will be treated as a specific project within the program. This Corridor is a network of roads that form the main artery of the city of Toledo. This intervention involves widening short stretches along these streets and avenues to extend the existing cross section. In some cases, this means building a median island with lighting and trees. The functional evaluation showed how this series of interventions will improve traffic flow in the city and, most importantly, provide sufficient capacity to meet future, long-term demand.[67]

Institutional strengthening (US$0.7 million)

This entails four subcomponents that will be financed: (i) modernizing technology and information technology; (ii) improving administrative management; (iii) training; and (iv) strengthening technical management.[68]

The project was also expected to include US$1 million in local counterpart resources for "associated costs" to finance expropriation costs for the land necessary to build the North Perimeter Park and the Sanga Panambi Park Strip, and for the property necessary to widen urban roads.[69] As in all other Procidades projects, counterpart costs were expected to account for at least 50% of all project costs, although in some cases expenses for components or

channels. The paved area is also smaller. All these features allow for a low-cost solution, consistent with the relatively sparse traffic of these production-oriented roads." *Ibid.,* para. 2.8, pp. 8-9.

[67] This subcomponent also includes improvements to existing pavement in several residential districts of Toledo, where virtually 100% of the streets are paved. There are plans to rehabilitate approximately 20km (196,600m^2) of paved surface, focusing on city streets that have surpassed the useful life of 10 years for which they were designed. The subcomponent would also include construction of sidewalks, planting of trees along public walkways, public lighting and paving of residential streets. Construction of 10km of sidewalks in front of properties that currently do not have them was expected to ensure adequate mobility for pedestrians and the disabled in particular. The local government was expected to recover the cost of these works through betterment levies on the property owners. The pavement of residential streets would focus on relatively new middle- and low-income neighborhoods that do not currently have paved streets.

[68] The proposed actions were designed to support current efforts to streamline the *município's* administrative structure; improve tax and fiscal procedures and systems; improve human resources management; implement integration of budgeting, budget execution, financial management, purchasing and procurement, accounting, payment and internal control systems; modernize the technology and information technology departments to ensure the technical support necessary for integrating these systems; streamline and enhance staff training; and reinforce technical management in the urban planning and transit departments.

[69] *Ibid.,* paras. 2.3-2.19, pp. 6-11.

subcomponents (e.g., improvements to the Willy Barth plaza) undertaken prior to the formal effectiveness of the Bank loan could be recognized as part of the local counterpart contribution.

This project is noteworthy because it contains a specific environmental improvement component and because, unlike any of the other Bank-supported Procidades operations, it contains a rural road pavement subcomponent. This subcomponent was technically not eligible for financing under the program ORs described in an earlier section of this report. In addition, despite its infrastructure improvement investments, the Bank classified the project in Category C according to the LP for environmental assessment purposes (although it is possible that this was merely a misprint in the document). These elements probably reflect the fact that this was one of the very first projects to be financed under the Procidades credit line. They may also reflect the decentralization of project processing responsibilities to the resident Bank office in Brasilia, whose staff may have been less familiar with Bank safeguards requirements than a team led from Headquarters. Headquarters-led teams are the normal case with new Bank operations. In any case, this was corrected for all subsequent Procidades projects.

This possible misclassification notwithstanding, according to the LP, the potential impacts were assessed in the Environmental Assessment Report (or RAA in Portuguese), which was required for environmental licensing purposes under Brazilian legislation. This report "identified impact mitigation/compensation and environmental oversight measures to ensure the expected benefits of the program." The LP also indicated that the final version of this report had been made available to the public on the PMT's (i.e., municipal government's) website, and that, "despite the anticipated quality-of-life and environmental improvements in Toledo, the execution of works under this program will also have certain minor, short-term adverse impacts related to changes in the physical and socioeconomic environment." These anticipated impacts included:

(i) expropriation of 20 properties or estates (unoccupied land, residential buildings and commercial establishments);

(ii) changes in traffic patterns along streets, avenues and rural roads during execution of works;

(iii) generation of noise, dust and air pollution near work areas; and

(iv) interference and inconveniences in daily activities for residents near the works area of influence.[70]

No possible post-construction or indirect environmental or social impacts were mentioned, however.

Elsewhere, the LP also observed that "the environmental specifications and considerations for this program are laid out in the environmental assessment report (RAA), prepared by the PMT and approved by the Bank. It establishes: (i) the environmental eligibility criteria, (ii) instructions for processing environmental permits for works and (iii) procedures for developing environmental monitoring routines." These are not further described in the LP document itself. It likewise stated, however, that "environmental authorizations from the Environmental Institute of Paraná (IAP) must be obtained for the roads, buildings and urban facilities financed by the program. These authorizations have already been processed and granted for the representative sample works for the program. A preliminary permit has also been obtained for the North Perimeter Park."[71] Thus, the project would appear to have been largely in compliance with OP-703, except perhaps for the associated information disclosure and public consultation requirements, **as simply making the RAA available on the PMT's website does not constitute full public consultation. Nor does the LP indicate whether any involuntary resettlement would be required in relation to the expected expropriation of 20 properties, some of which were apparently either residential or commercial properties**.

As a now-closed project, Procidades Toledo now has both a Bank Project Completion Report (PCR) and an independent evaluation report, both of which conclude that the operation was implemented successfully — and classified as "very satisfactory" by the PCR — and largely met its objectives and design targets.[72] With respect to its environmental improvement component, for example, the project achieved 144,800m^2 of "preserved environmental area" through rehabilitation of the Willy Barth Plaza and construction of the Luiz Claudio Hoffmann People's Park,[73] which was referred to in the LP as the "North Perimeter Park." The linear park

[70] *Ibid.,* para. 4.19, pg. 25.

[71] *Ibid.,* para. 3.9-3.10, pg. 15. It adds that "this permit is required by the IAP and certifies the environmental viability of the action. It states the requirements and conditions that must be met before applying for the setup permit at the time of implementation."

[72] A closing seminar for the project with Bank participation was also held in Toledo on May 17, 2012.

[73] IDB, 2012, pg. 6.

(Parque Linear Sanga Panambi) and all four of the proposed social infrastructure improvements were also completed. So were the paving of 27km of rural roads — down from the initial target of 39km because of the decision during implementation to double the width of one of the improved segments from 3.5m to 7m — and the proposed urban road improvements.[74] Total project costs proved to be 12% higher than originally anticipated (US$16.4 million, compared to an estimate of US$14.7 million), but the loan amount remained the same, reflecting an additional local counterpart contribution of nearly US$1.7 million.[75] The project was also completed one year ahead of schedule.[76]

The independent evaluation reaches similar conclusions with respect to the overall performance and results of the project. However, it also raises a question about the social distribution of project benefits, especially with respect to the urban (and rural) road improvement components that were expected to have a positive impact on adjacent private property values. Despite these anticipated benefits, the municipality had not yet taken any action to recover part of the associated investment costs through increased property taxes or, as affirmed in the LP, application of betterment levies.[77] On the other hand, two of the subprojects under the social component, the Santa Clara IV School and the Jardim Panorama Social Assistance Center, both of which are in full operation, have clearly benefitted predominantly lower-income neighborhoods and their populations. School-age children have been especially benefited, while the subprojects also provide support to their families as a whole. The same appears to be true of some of the neighborhood-level urban road-upgrading investments. The final evaluation report, moreover, does not specifically comment on the possible direct and/or indirect environmental impacts of the various project components and subcomponents, nor does the Bank's PCR, other than with respect to the successful implementation and results of the environmental improvement component *per se*.

ESG visited the completed Procidades Toledo project in February 2013 and visited all of its major components and subcomponents, including each of the rural roads, some of the urban roads that were upgraded, all of the project-implemented environmental improvements and the

[74] *Ibid.,* pg. 9

[75] *Ibid.,* pg. 10. The social infrastructure (26%), environmental improvement (21%) and roads (5%) components all exceeded their appraisal cost estimates, as did the institutional strengthening (9%) and project engineering and administration (2%) components.

[76] The actual last disbursement date was July 25, 2011, as compared with an expected date of July 23, 2012.

[77] See Jose Alberto Gemal, 2012.

four new or improved facilities under the social component, most of which were in full operation. ESG also met with a number of the senior municipal officials, including the recently elected mayor, who had taken office on January 1 of this year; the head of the municipal Resource Mobilization Office, which had previously been responsible for project implementation; and with the previous project coordinator, who had returned full-time to his university teaching position when the new local administration started. While some of the social investments required further maintenance, especially the new building for the Rhythmic Gymnastics and Martial Arts Training Center — which appeared to have a substantial leak in the roof and thus could not be used at the time of ESG's visit — there were also minor construction-related problems in both the Santa Clara IV School and the Jardim Panorama Social Assistance Center that did not affect their current operations. These problems were attributed to the speed with which the previous municipal administration sought to finish project implementation (i.e., prior to the elections in the fall of 2012).[78]

As also observed above, ESG visited all 27km of the rural road subprojects that had been implemented under the project — one of which was 7m in width, the other 3.5m — as well as a still-unpaved road in similar environmental conditions to those that had recently been upgraded, all of which were located in close proximity to the municipal seat (i.e., Toledo). These roads were well designed and implemented and, without exception, passed through areas devoted exclusively to intensive and highly mechanized farming (soybeans and corn) and/or small-scale cattle-ranching and poultry-raising activity, which accounts for the bulk of rural land use in this and neighboring municipalities. As a result, although **this was not specifically assessed ex-ante**, the roads **are not expected to have any indirect adverse environmental or social impacts, as they will not induce any change in land tenure (which is already clearly defined) or use (which is already permanently given over predominantly to capital-intensive agricultural activities). In fact, they are expected to bring environmental benefits by contributing to better drainage, thereby complementing the micro-watershed management interventions already taken on the adjacent farms themselves.** On the other hand, as suggested above, these road improvements will primarily benefit the local rural landowners, who are by no means poor, even if their properties are comparatively small. This is thanks to the highly commercial nature

[78] Personal communication by the present head of the Municipal Resource Mobilization Office, Luiz Carlos Balcewicz, who visited all of these facilities with ESG, took note of these maintenance needs. Balcewicz informed me that they would be quickly resolved.

of agricultural and ranching activities throughout the municipality and more generally throughout northern and western Parana, which is one of Brazil's richest rural areas.

This project is also the subject of a very interesting and instructive case study carried out by a consultant from the University of Brasilia on **environmental preservation and the planning of urban expansion in Toledo**. This is one sense in which this project clearly **illustrates good practice from both an environmental management and a sustainable urban development standpoint**. Noting that, according to the 2010 Brazilian Census, Toledo's population had increased to just over 119,000 and that the municipality has maintained its excellent living conditions and high levels of education, health, safety and other social indicators, the case study summarizes the characteristics of its urban structure. The aforementioned Willy Barth Plaza anchors this structure. Much of the urban area, which is expanding to the north, is organized around the park system more generally, including an "Estrada Parque" (literally "Park Street") comprising a "linear park" along the banks of the Panambi creek (*riacho*), in an area specially zoned for this purpose. The area extends northward from the city center, leading to a manmade lake and surrounding green area, which were initially created in the 1980s and then fully developed under the project as the "Sanga Panabi Park Strip" and "Northern Perimeter Park," respectively. The latter of these was subsequently inaugurated and named after one of the city's founding fathers, Luiz Claudio Hoffmann.[79]

More concretely, this case study sought to answer the following question: How did the Procidades project in Toledo structure the urban park system in such a way as to create new central areas (*centralidades*) in the city? This was done through three partially interlinked investments, which are specifically characterized in the paper in the following terms:

(i) **Willy Barth Plaza**: requalification of the green area that structures the city center;

(ii) **Sanga Panambi Linear Park**: the urban expansion vector; and

(iii) **The People's Park (aka Luiz Claudio Hoffman Park)**: focus of the new urban center

The second and third of these interventions make up the aforementioned "Estrada Parque." One of the key purposes of this coordinated investment in park development was to help orient future residential expansion (as well as other types of expansion) along this northern

[79] See Bezerra, *Toledo*, pp. 3-5.

axis of the city, and away from the area where the large agro-industries, including the huge meat-packing plant, were located. The case study credits this strategic use of green spaces to the presence of experienced urban planners in Toledo but also to "a historic tendency to value green areas as focal points in the city."[80]

In conclusion, the case study, which unfortunately did not address the project's safeguard compliance performance, draws a number of key and generalizable lessons from this experience. The lessons pertain to the roles of urban planning, environmental preservation, public participation and the local business community, and they merit repeating:

- An urban planning structure with permanent trained technical personnel permits the anticipation of problems, the capture of successful actions for improvement, and the promotion of replicability, knowledge and connectivity with local values by means of the establishment of urban patterns that contribute to the construction of an identity for the city.
- The environmental preservation interventions and implantation of green areas, when they are articulated with urban planning strategies, not only constitute beneficial works in and of themselves, but can also help to structure the city's landscape and solve its problems.
- Public participation is relevant in order to capture needs and generate inputs for the elaboration of solutions and projects. However, it tends to have a vision limited to its own demands, without the perspective of the broader set of city needs and without foreseeing how alterations in the urban structure can result in positive actions over the long run. The urban structuring proposals are attributions of the technical arena, which should not abdicate its professional responsibility by confusing public participation with the elaboration of projects.
- The business sector in the majority of cases can connect residents' interests with the actions proposed by the urban planners. Partnership with this segment can facilitate negotiations and mediate conflicting interests that the planners need to confront in order to promote changes in the city that promote its development. It is able to immediately

[80] *Ibid.,* pg. 14.

comprehend future business opportunities and support the innovations that need to be introduced in the city.[81]

These lessons notwithstanding, as a final observation about this project — which is also applicable to many of the other Procidades operations in Brazil, especially for non-state capital cities — it is important to point out that Toledo clearly is not a poor municipality, nor does it have a significant incidence of either rural or urban poverty. To the contrary, as the LP itself observes, even prior to the project, Toledo's Human Development Index (HDI) was in "the top 3% in the country and third in the State of Paraná," and it ranked similarly high on other indicators, including with respect to access to basic urban sanitation and education. According to local sources, it also has a strong tradition of both urban planning, having started life in the 1950s as a planned settlement, and civic participation. The latter is led in part by local church organizations, one of which is helping to run the project-financed Jardim Panorama Social Assistance Center.[82] Thus, it is among the "crème de la crème" of smaller Brazilian cities, including in terms of having a history of comparatively good municipal governance and administrative performance, as well as being located in one of the most prosperous and developed states and having previously benefited from at least one of the Bank-financed *Parana Cidade* operations. Many of these same highly positive characteristics apply equally to the much larger state capital of Campo Grande.

7. The Campo Grande Integrated Development Project (also known as *Programa Viva Campo Grande*)

This operation was prepared and approved in parallel to the one in Toledo, but for a much larger urban area, albeit one also located in a very prosperous agricultural region. According to the respective LP, "the *Município* of Campo Grande, capital of the state of Mato Grosso do Sul, is 8,086 square kilometers in size and has a population of 765,247, 32% of the state total. Currently with a 99% urbanization rate, Campo Grande's soaring population numbers in recent decades — a fivefold increase between 1970 and 2000 — have made it Brazil's 23rd largest city in

[81] *Ibid.,* pp. 14-16.

[82] Personal communication from both Luiz Carlos Balcewicz and Luiz Alberto Cypriano, the former local project coordinator in Toledo, in February 2013. Interestingly also, Brazil's present top Catholic Cardinal, recently considered by the international media to be a strong candidate to be Pope, grew up in Toledo. He was the local Bishop there before becoming Archbishop and later Cardinal in Sao Paulo, and much of his family still lives in the city.

population terms."[83] The city has also gained in both economic[84] and social[85] terms. The LP then goes on to affirm that:

> [o]ver the past few decades, successive Campo Grande city administrations have put urban issues at the top of the municipal agenda, resulting in the effective planning and management processes in place today. Continuing these practices, the present administration is anchoring its urban development policy in participatory governance principles. The 2006 Official Plan is the *Município's* core development policy tool and general roadmap for its work, which includes: (i) identifying, reclaiming, and preserving the city's urban, cultural, natural, and built heritage and (ii) pursuing urban planning actions by means of local area and sectoral plans.
>
> Keeping to the aforementioned development policy and Official Plan, the present city administration launched the "Viva Campo Grande" Program (PVCG) in 2005 as the centerpiece of its pursuit of its development objectives. The purpose of the PVCG is to consolidate the urban programs now under way and address other pressing needs, including: (i) consolidation of integrated urban development processes; (ii) preservation of Campo Grande's urban, cultural, and built heritage; (iii) improving mobility across the city, and (iv) improving city government workings. The projects and measures comprising the PVCG have been devised strategically to achieve its goals, with a structured timetable of activities over the short, medium, and long term as a stable, strategic, and efficient way to address the city's growing demands. The *Município* has already secured US$75 million in funding from the federal government and international agencies to finance some priority projects, but additional financing will be needed to implement the PVCG in its entirety.[86]

Thus, the present project is **an integral part of a larger municipal urban development program**, which also includes an intermodal freight transport terminal financed by the federal

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[83] IDB, 2009a, para. 1.1, pg. 1.

[84] According to the LP, "Campo Grande's economic indicators in recent years present patterns typical of sustained growth, the city having reaped the benefits of expanding commercial ventures and service industries…Municipal GDP…today contributes to 29.4% of...state GDP. Thanks to this economic record, average per capita income in [the city] climbed from RS$ 323.10 in 1999 to RS$450.39 in 2006, at which point it was the highest in the state. According to 2006 data, 40% of Campo Grande's economically active population (which is 53% of its total population) are (sic) employed in the formal sector." *Ibid.,* para. 1.2, pg. 1

[85] Again according to this source, "these economic gains have translated also into significant improvements in the residents' living conditions. After years of steady declines, the poverty rate now stands at 18% and other key social indicators have improved as well…and the Human Development Index (HDI) [rose] from 0.770 to 0.814 [between 1991 and 2000]. [As result,] Campo Grande ranks among the Brazilian municipalities with the highest HDI, in 11th place among Brazil's capital cities and 307th among the 5,507 municipalities rated nationwide." *Ibid.,* para. 1.3, pg. 1.

[86] *Ibid.,* paras. 1.16-1.17, pp. 5-6.

Ministry of Transport and a major slum improvement. Included further is a project for the recuperation of degraded low-lying areas (known as "*Projeto Imbirissu*"), jointly financed by a US$21 million grant from the federal Accelerated Growth Program (PAC) and a US$34 million loan from the Plata Basin Development Finance Fund (FONPLATA). These initiatives, in addition to the construction of a federal Ministry of Tourism-supported Municipal Fine Arts Center and investments for public street lighting through the National Efficient Public Light Program (*Reluz*) coordinated by federal electric energy sector holding company Eletrobras, are all part of the broader ongoing urban investment program for the city. The program's implementation is being coordinated by the same municipal technical unit as the IDB-funded Procidades project in Campo Grande.[87] This unit is the Unidade de Programas e Projetos Especiais (UPPE), which reports directly to the mayor.

According to the LP, the project's general objective is "to enhance the quality of life of residents of the *Município* of Campo Grande by implementing urban projects and actions to improve the workings of city government. Its specific objectives are to: (i) revitalize the downtown core, (ii) improve mobility across the city, and (iii) increase the administrative efficiency of the Campo Grande municipal government." It also affirms that the project "satisfies the conditions and requirements of the PROCIDADES lending facility [and] builds on the Bank's experience in multi-sector urban development interventions such as those carried out in the Paraná Urban Development Program, stages I (0917/OC-BR) and II (1405/OC-BR) [and]...in projects like the Rehabilitation of Quito's Historic Center (822/OC-EC) and the Curitiba I Urban Transportation Program (873/OC-BR)." Among the specific lessons derived from these and similar operations that were reportedly reflected in project design were: (i) the community should have a prominent role in project determination and execution to ensure that urban improvements will be sustainable; (ii) designs and working drawings should be ready from the program rollout date to avoid delays and cost overruns during execution; and (iii) the technical unit selected to head up program activities plays a key role, so it must be appropriately positioned within the responsible institution and have adequate technical support.[88]

[87] An excellent summary of all of these investments with a location map and schematic drawings for each investment, including for each of the major subcomponents under Procidades Campo Grande, was provided to ESG during its field visit in February 2013. See Prefeitura Municipal de Campo Grande, 2013. This document was prepared for the benefit of the newly elected incoming mayor, in order to familiarize him and his senior colleagues with the city's current investment programs and international commitments.

[88] IDB, 2009a, para. 1.20 and 2.1, pp. 6-7.

In order to achieve these objectives, the project has the following main components:

Downtown revitalization (US$5 million)

This is intended to support city government efforts to revitalize the downtown core. The interventions slated for funding were expected to make the government's work more efficient and accelerate initiatives to upgrade the urban environment, reclaim and rehabilitate the city's historic heritage resources and invigorate the local economy. The component has two subcomponents: (i) development of planning and management tools[89] and (ii) implementation of strategic projects. More specifically, the second subcomponent will finance works to rehabilitate a strip of disused railway track bed where it crosses the downtown core, transforming it into a public recreational space, in the process helping to preserve the area's history and enliven business activity there. This project, identified as a priority in public planning forums because of its location and potential public safety concerns, will include construction of public squares, public stairways, gardens, street furniture and public lighting, as well as accommodations to make facilities user-friendly for people with disabilities. This subcomponent was also expected to fund a second strategic project to be identified in the above-mentioned local area plan.[90] However, it was later dropped.

Urban mobility (US$26.2 million)

This is to upgrade Campo Grande's urban mobility system by improving road system connectivity, making fuller use of the downtown street network and enhancing urban transportation planning capacity. Its three subcomponents are: (i) road connectivity improvements; (ii) modernization of the traffic light system; and (iii) updating of the Transportation Master Plan. Under the first of those subcomponents, the Program will finance

[89] Activities to be funded under the first subcomponent are the development of a local area plan for the downtown district, including the requisite operational and legal instruments, and identification of strategic projects to make the plan work effectively. Another objective of the local development plan is to heighten private-sector engagement in the business, services and housing sectors, providing an urban policy roadmap for strategic public and private initiatives and needed infrastructure investments in the downtown core.

[90] According to the LP, among the candidate projects are upgrades to Avenida 14 de Julho (the major downtown commercial artery), pilot housing strategy exercises and economic development hubs. To be selected for funding, this second project would have to satisfy the following requirements, at a minimum: (i) it must be a strategic urban development or economic initiative identified as a pilot in the downtown-district local area development plan; (ii) it must provide incentives for private-sector engagement in the zone; (iii) it must have been approved by the Municipal Urban Development Council; and (iv) its cost must be within the Program budget.

the widening of key arteries and upgrades and adjustments to those streets to improve connectivity between west and downtown Campo Grande. The works to be funded include improvements on the following streets: (i) Via Morena, airport/Avenida Júlio de Castilho section (widening of the roadway cross-section, reserving the center lane for public transit and creating a bike lane); (ii) Avenida Júlio de Castilho (cross-section adjustment, changes to public transit boarding/alighting points and creation of a bike lane); and (iii) the "Orla Morena" strip of land on Avenida Noroeste between Avenida Júlio de Castilho and Avenida 14 de Julho (revamping of intersections, new crossings).[91]

Institutional strengthening (US$1.4 million)

This component would fund municipal government institution-strengthening activities to complement initiatives already under way in city government offices and agencies. It consists of two subcomponents: (i) **setup of the municipal IT network**[92] and (ii) **capacity strengthening in municipal government departments**. The focus of funding support in the second subcomponent is the strengthening of three priority city government departments and agencies that are considered key for the Program's operation and sustainability: Environment and Sustainable Development Department (SEMADES), Public Works and Utilities Department (SESOP), and Municipal Transportation and Traffic Agency (AGETRAN). **The planned actions to strengthen SEMADES are: (i) computerization of the environmental permitting system; (ii) integration of environmental data into the Município's geographic information system; (iii) supply of IT hardware and other equipment for environmental compliance management, and (iv) consulting services for air and noise pollution diagnostics**.[93]

The project also allocated resources for "program administration" (US$2.2 million), "associated costs" for land expropriations (US$1.85 million) and "studies and designs" (US$2

[91] The second subcomponent would entail installation of a new traffic light system to operate at about 180 crossing points, featuring a central control system with traffic-signal activation and monitoring using real-time image transmission. This system was also expected to address pedestrian needs, signaling when it is safe to cross. The third subcomponent would finance consulting services to review and update the Transportation Master Plan, using new databases and analysis and assessment techniques.

[92] The first subcomponent will finance the setup of a high-speed municipal IT network to give city government offices fast Internet access. One item to be funded is the procurement of six Wi-Fi base stations with 274 municipal connections to link 6,500 computers in city government offices and municipal facilities.

[93] The above component description is drawn from IDB, 2009a, paras. 2.6-2.9, pp. 6-9. Emphasis mine.

million).[94] As in the case of Procidades Toledo, that total estimated project cost was evenly divided between the Bank loan amount and local counterpart funding (US$19.382 million each), with counterpart funds only to be utilized for expropriations. As concerns the project's "environmental considerations," the LP states the following:

> Environmental specifications and considerations for the Program are defined in the Environmental Assessment Report produced by the Campo Grande municipal government, approved by the Bank and presented at CMDU [Municipal Urban Development Council] public meetings on 8 August 2007. The assessment report sets out the environmental protection procedures that the planned PMU [Project Management Unit — i.e., UPPE] socio-environmental advisor will have to ensure are followed throughout the project cycle. These include: (i) environmental eligibility criteria; (ii) directions for environmental permitting for construction work, and (iii) procedures for development of environmental impact supervision, compliance, and monitoring routines. SEMADES will be responsible for environmental permits for the Program works. All the projects in the Program sample already have a SEMADES startup permit.[95]

As to the project's environmental and social impacts, in turn, it affirms that:

> Given the nature of the planned interventions, the proposed Program will have no significant adverse environmental or social implications. It is classified in Safeguards Screening Category B. An environmental assessment report was produced for the Program to: (i) ascertain the operation's main environmental and social impacts, (ii) identify environmental permitting procedures for significant-impact projects, and (iii) establish criteria and procedures to assure the environmental viability and sustainability of Program-funded works. The analysis findings indicate that the proposed interventions conform to Brazilian federal, state, and municipal environmental and social legislation and policies governing urban areas. The adverse impacts the Program works are expected to produce will be temporary, moderate, and confined to the construction stage. The Program does not call for any population resettlement.
>
> The Program's environmental viability has been assured by building the environmental dimension into the project development and execution cycle, using a set of environmental eligibility criteria which must be satisfied for a project to qualify for Program funding. These criteria are the centerpiece of the Program's environmental operational procedures. Following indications in the environmental assessment report, Campo Grande's Environment and Sustainable Development Department (SEMADES) will help the PMU supervise the environmental

[94] *Ibid.,* project cost and financing table, pg. 9.

[95] *Ibid.,* paras. 3.17-3.18, pg. 13.

> dimension of the Program's implementation. The planned SEMADES capacity strengthening activities will better equip that city department for its mandated activities.[96]

What the project description in the LP does not make clear, but is quickly clear once one has a chance to visit the project on the ground — and this is one of its main contributions to good practice — is that most of its major physical interventions, are in fact highly interrelated, even if each one has its own purposes. This refers specifically to the subprojects under the urban mobility and downtown revitalization components, both of which utilize the former right-of-way of a railway that passed through the heart of downtown Campo Grande, in order to introduce improvements under the Procidades project. Thus, the so-called "Via Morena" under the urban mobility component is the duplication and improvement (with drainage, illumination, landscaping and a parallel bicycle path) of the main access road from the airport to downtown using part of the former rail right-of-way. Meanwhile, the "Orla Morena" and the connecting "Orla Ferroviaria," under the downtown revitalization component, form a new linear park that consists of a nicely landscaped pedestrian walkway and bike path with meeting and leisure areas and small shops. This linear park is the continuation of the former rail line, some of which has been retained for historical heritage purposes, into the heart of downtown. In addition, the Via Morena improvement connects physically with the other major road improvement investment under the Procidades project: the upgrading of the Julio de Castilho Avenue, another major artery in the central city road network. Unlike the complex consisting of Via Morena, Orla Morena and Orla Ferroviara, this subproject was not part of the representative sample of works analyzed by the Bank prior to approval of this operation, though it was identified in the LP.

Thus, in a very real sense, this is one single urban development project with the dual objectives of improving urban transit circulation (from the airport and points beyond to the city center) and making use of an essentially previously abandoned area in the downtown (abandoned since the rail line was deactivated several years ago). This area had previously become a hub of crime, drug use and other "marginal" activities, thereby contributing to a progressive degradation and devaluation of part of the traditional central city. The former rail line, moreover, had also represented a physical barrier between the downtown and adjacent residential areas. Its transformation into the inter-linked Orla Morena-Orla Ferroviara pedestrian walkways, with new

[96] *Ibid.,* paras. 4.14-4.16, pp. 19-20.

above and underground road crossing points introduced at several places along its length, thus became a catalyst for the integration of these areas, rather than their separation. There was consequently a corresponding increase in both nearby property values and commercial activity. These project investments, additionally, are linked with other parts of the city's current development plan, including the aforementioned Municipal Fine Arts Center presently under construction adjacent to the second stage of Orla Morena, which was being developed in two phases both financed under the Procidades operation.

Accordingly, the Procidades project in Campo Grande, though presented in the Bank's LP as a set of different investments in two distinct components, is both an integrated effort to improve physical, social, economic and environmental conditions in the central city and part of a broader strategic development strategy and plan for the city as a whole. The plan includes actions financed by other sources, though coordinated by the same technical unit (the UPPE) within the municipal government. Like Toledo, moreover, Campo Grande is a relatively high-income city in a prosperous agricultural state (mainly enriched by extensive cattle raising and soybeans and rice farming), while it also possesses a strong tradition of urban planning and a strong local technical team. The urban planning aspect has moreover seen a clear environmental focus, while the local technical team has been involved in significant public-sector-led urban development activities over the course of at least the past two municipal administrations.[97]

This project was subject to both a December 2009 environmental supervision mission and a best practice study similar to the one previously summarized for Toledo, though this particular study focused on the role of public participation in the sustainability of urban revitalization investments by different Bank consultants. Each of these initiatives will be briefly described below, as will the environmental assessments and management arrangements for the project, which were also a focus of the earlier Bank environmental supervision mission. This discussion is also based on the present consultant's review of the environmental assessment and

[97] The previous popular mayor, who had been elected for two terms (but therefore was ineligible for a third successive term), was particularly concerned with implementing urban improvements of both a social and environmental nature. These included the aforementioned Projeto Imibirissu slum upgrading program, involving the relocation into new housing complexes of some 1000 families, and a previous smaller such initiative, the "Soter" Project, entailing relocation of roughly 100 families from the margins of another watercourse in the city. Both were financed by FONPLATA. Improvements also included implementing a number of bicycle paths throughout the city and promoting the Procidades and other urban investments briefly described above. This information is drawn in part from personal communications from Eliane Salete Detoni, former coordinator of the UPPE, who was relieved of her position when the new mayor took office on January 1, 2013, and Reinaldo Guimaraes Nascimento, who showed ESG both the Soter and Imbirissu Projects in February 2013.

management documents and of arrangements for the operation while visiting Campo Grande together with a regular Bank project supervision mission in February 2013.

The 2009 environmental supervision mission had as its stated purposes to:

(i) evaluate the project's compliance with "all the environmental, social, health and safety requirements" established by national legislation and by the Bank;

(ii) identify the "current level of negative impacts" related to the project;

(iii) identify current risks;

(iv) identify local perception of the project; and

(v) identify positive environmental and social activities or actions in which the project has resulted.[98]

The mission concluded that "in general, the program conformed with the socio-environmental safeguard directives" as indicated in the EMR (or RAA in Portuguese), containing the assessment of the socio-environmental impacts of the program," together with the simplified environmental report (RAS) that "subsidized the Prior License (LP) requirement for the sample projects (Orla Ferroviaria, Orla Morena, and Via Morena) undertaken in accordance with Terms of Reference provided by the Municipal Environment and Urban Development Secretariat (SEMADUR)," and "environmental plans and programs, which correspond to the environmental management plan referred to in IDB directives in the form of an Environmental Control Plan (PCA or *Plano de Controle Ambiental* in Portuguese) and programs for the organization and cleaning of the work camps and management of civil construction wastes (*programas de Arrumacao, Ordem e Limpeza de Canteiro de Obras e de Gestao de Residuos de Construcao Civil*, or PGRCC)."[99]

The consultant's visit to the civil works under implementation during this mission did not detect any cases of "noncompliance with the mitigation measures proposed in the PCA or of the conditions established in the Installation License (LI)," with the exception of one neighborhood safety concern which is further describe elsewhere. However, the report affirms that "one difficulty encountered in the supervision activities was the lack of indicators that permit more objective and effective verification of the programs environmental management plan and the

[98] See, Verocai, 2009a, pg. 1.

[99] *Ibid.,* pp. 4-5.

PCA for the works."[100] This observation is significant because it refers to a general problem with environmental supervision of construction works while they are taking place. As it turns out, a method of resolving this difficulty was encountered and actively put into practice by the local coordination unit for the Curitiba Procidades project, which will be described more fully in the next section of this report.

The consultant also observed that only a single license was required for the three (albeit interconnected, as indicated above) sample subprojects (Via Morena, Orla Morena and Orla Ferroviaria). This was so even though the three were "similar in nature [but] have their own characteristics and will be executed in distinct urban areas in terms of occupation, road traffic and urban use, which could be the cause of technical deficiencies found in the RAS and the subsequent program licensing and monitoring documents." She added that:

> in addition, this cannot be considered a good licensing practice because it does not permit the individualized of the negative impacts, nor does it ensure that the LP and LI are orientation vehicles for environmental sustainability of the undertakings. The technical deficiencies found by the consultant in the LI refer principally to the generality of the environmental control requirements, the indefinition of impact indicators and the lack of monitoring actions that permit control of the negative impacts; consequently, the semi-annual progress reports concentrate on the verification of the monitoring measures proposed in the RAA, which…correspond more to project performance targets than to impact monitoring measures.[101]

When questioned about these observations by ESG during its February 2013 visit, members of the project management unit (UGP) responded that the consultant appeared not to fully understand the nature of the project — i.e., the actual physical integration of the three sample projects mentioned above. Therefore, the suggestion was that she did not understand the reason for the single environmental analysis and licensing procedure for the Via Morena, Orla Morena and Orla Ferroviaria that had earlier been accepted by the Bank's project team (but which did not contain a representative of ESG) during the project appraisal process.[102] Nevertheless, the present consultant's own review of the environmental analysis and

[100] *Ibid.,* pg. 6.

[101] *Ibid.,* pp. 6-7.

[102] Personal communication from Jussara J. de Almeida, former coordinator of the institutional strengthening component and responsible for project environmental aspects and Catiana Sabadin, financial manager of the UGP, both of whom were among those also interviewed by the Bank's environmental consultant.

management plan documents[103] for the three combined sample projects during his February 2013 visit largely coincides with the earlier Bank consultant's findings in this regard. Indeed, both the analysis of potential impacts and the proposed mitigation measures in these documents are, **while not inappropriate, rather generic** and thus **not grounded in the specific environmental and socio-economic conditions and characteristics of the localities of the proposed works in question**. This is a shortcoming of these documents that appears not to have been observed by the Bank at the time the project was appraised.

Moreover, these documents focus on both potential impacts during both the construction and the subsequent "operation" phases of the three combined subprojects. However, the associated analysis, in addition to being generic, **gives very little attention to their possible indirect environmental and social impacts either as individual investments or collectively (i.e., their cumulative impacts).** According to the RAA, nearly all of the potential impacts during the "operation" phase of the project, which is also described as "making the revitalized system available," were in fact seen as positive. More specifically, they were viewed as positive with respect to the operation of the roads, greater mobility of the flow of vehicles and "urbanistic integration." This consists of (i) improved accessibility to neighborhoods; (ii) increased mobility of public services (collective transport and trash collection); (iii) induced economic growth; (iv) increased property values; and (v) induced urban infrastructure availability. The only potential negative impact identified was the increased risk of accidents. The proposed mitigation measure here was to clearly place traffic controls and road signs at appropriate locations along the improved roadway (i.e., for the Via Morena). **Thus, any possible indirect negative environmental and/or social effects of the identified positive impacts, such as "induced economic growth," "increased property values" and "induced urban infrastructure availability," were not considered as part of this analysis.** This is another key shortcoming of the prior environmental and social analytical and mitigation/management plan work carried out in relation to this project.

In addition to the above, when asked about the up-front environmental and social due diligence for the non-sample investment undertaken as part of this project, the UGP indicated that no additional environmental and social analysis had been required by the Bank at the time it was added to the project. Due diligence included upgrades to Julio de Castilho road, important

[103] See Citta Planejamento e Consultoria 2007.

both as a traffic corridor and as a key commercial street along much of its length. The road is being widened to accommodate a median strip, as well as repaved and equipped with traffic signals, bus stops and better street lighting. While the required environmental licenses had been obtained in advance of the construction work (which is currently well-advanced), this project was essential similar in nature to the earlier Via Moren. Therefore, the same generic impact analysis and corresponding mitigation measures also applied to it. As a result, **this important urban road improvement investment project in central Campo Grande — estimated to cost more than US$10 million**[104] **and to be more than 70% completed as of January 2013 — was not required by the Bank to be subject to any independent prior environmental and social impact analysis beyond meeting the municipality's environmental licensing obligations**.[105] This would thus likewise appear to be a shortcoming of the project, as supervised by a local consultant acting on behalf of the Bank (but not ESG).[106]

These apparent shortcomings **raise a number of key operational and safeguard policy interpretation questions** both for the Bank in general and its Environment and Safeguard Compliance Group (ESG) in particular. They thus also have direct implications for possible future staff guidance and training in this regard. They in fact transcend this individual project, the Procidades program as a whole (although they are clearly relevant to it) and Bank operations in Brazil. However, they require specific attention:

(i) What level of locational specificity is acceptable in terms of up-front project environmental and social analysis and assessment for Category B projects?

(ii) The same question, but with respect to associated environmental and social management plans.

[104] This compares with roughly US$6.8 million for the Via Morena, which was 99% completed; US$5.7 million for the first stage of Orla Morena, which had been completed; US$1.75 million for the second phase of this project, which was 89% completed; and US$2.3 million for the Orla Ferroviaria, which was 94% completed in January 2013 (see Prefeitura Municipal de Campo Grande, 2013).

[105] A bridge to be reconstructed over the Serradinho Creek as part of this road improvement project was required to obtain a separate environmental license, however.

[106] This advice was provided to the UGP by a local environmental consultant hired by the Bank program coordination unit in Brasilia. This consultant has participated in the supervision of a number of Procidades operations.

(iii) When and under what circumstances can (or should) additional specific environmental and social analysis or assessment studies and management plans be waived for non-sample projects in global multiple works operations?

(iv) How and how well are local environmental consultants trained in Bank safeguard policy requirements? This includes how these requirements may evolve over time on the basis of actual experience with their application (evolving "case law" and good practice).

(v) How, and by whom, are such consultants overseen and supervised? Should they be? More specifically, what is ESG's role in this process? What should it be?

Before turning to the second good practice case study by a different Bank consultant referred to above, it is useful to reiterate some of the recommendations contained in the environmental supervision mission report cited above, which are also of more general relevance and with which the present consultant fully agrees:

- For the next subprojects and works of the project, the Prior and Installation Licenses (LP and LI) should be required to be issued *individually* in conformance with the legislation that rules environmental licensing in the country. The environmental reports for each one of them should be elaborated separately, analyzing the probable impacts of the effective implementation actions of the projects with respect to aspects and environmental factors specific to their areas of influence. This way, it will be possible to characterize the quality of each environmental factor affected by the project before, during and after implantation of the undertaking on the basis of objectives indicators and parameters, identifying mitigation measures whose efficiency can be determined by measurement and monitoring actions.

- In the preparation of Procidades projects, as well as in the conception and planning of the urban development and/or revitalization projects that are included within them, the best experiences and environmental and social questions that the Bank is interested in promoting should be incorporated in them. This may include details pertaining to: energy efficiency and sustainability in urban centers and buildings; construction, urban transport and housing technologies that are favorable in terms of climate change control and environmental sustainability; and the rational management and recycling of wastes.

- Continuity should be given to the discussion of socio-environmental directives for Procidades and the content of the Environmental and Social Strategies (EAS) (to be annexed to the Bank's Project Profile documents); environmental analysis reports (RAAs); instructions for the public consultation and information disclosure processes; guidelines for elaboration of involuntary resettlement plans for families and businesses; and environmental and social management reports (RGASs), as proposed in the draft Environmental Management Manual for Procidades (discussed above in section C).

- The Environmental and Social Management Plans (PGAS) for the individual projects should be financed by Procidades and include a section dedicated to environmental and social supervision arrangements that contains: (i) the scope and frequency of such visits; (ii) the performance indicators and for safeguard compliance that should be verified; and (iii) the financial resources required.[107]

In short, the environmental analysis studies for this project seem to have been insufficiently focused on the specific characteristics of the sites of the various investment subprojects that were implemented as part of it. In retrospect, despite the existence of a Municipal Environment and Urban Development Secretariat (SEMADUR), which reportedly has good technical capacity, it might be questioned whether this was the appropriate agency — i.e., whether it was sufficiently independent from the project executor — to properly oversee the environmental licensing process for this operation, as opposed to the state environmental agency for Mato Grosso do Sul. Indeed, both the implementing agency and that responsible for ensuring that the proper environmental studies were carried out and due diligence procedures were followed are part of the same municipal government and ultimately report to the same boss (i.e. the mayor). The Bank, however does not seem to have raised this issue, nor potential conflict of interest.[108]

The second study specific to the Campo Grande Procidades project considers the urban revitalization process as a whole. This entails the use of the former railway line right-of-way for the urban mobility and other investments described in part above and made to reverse an ongoing

[107] See Verocai, 2009a, pp. 9-11, emphasis in the original. There were also a number of other specific procedural recommendations not reproduced here.

[108] It should also be noted that at least one key member of the project management unit (UGP) for Procidades Campo Grande was also previously a member of the technical team in the local consulting firm that carried out the up-front environmental analysis.

process of physical, economic, environmental and social deterioration of parts of the downtown areas and adjacent residential neighborhoods. This process has already been described summarily above and thus will not be repeated here. However, the case study touches on one specific positive aspect of this process; namely, **the essential role of participation**. This includes public consultation in order to identify local needs during the planning stages for this intervention, in part through a survey of local residents in order to obtain their expectations of the proposed investments along the old rail corridor. This is especially important in the areas to be covered by the Orla Ferroviaria and Orla Morena, where this undertaking found strong public support. This support was also subsequently manifest in the establishment of a Residents Association for the Orla Morena (AAOM) during implementation of this subproject. The members of this Association effectively assumed "co-responsibility for its execution, conservation, and maintenance."[109] As in the Toledo case study, the consultant also drew several pertinent lessons and recommendations from this exercise for the sustainability of urban interventions, including:

- An urban project conceived within the structure of public management, but which possesses affinity with the real demands of the society, is capable of catalyzing the latent capacities of the population to mobilize in terms of a collective effort to improve its space.
- Consultation of the public with is the target of specific interventions should be realized in advance of elaboration of the "urbanistic" proposal, applying structured research that seeks not only to identify problems, but also needs. It should also capture the values and potentialities presents in the urban structure in order to support the elaboration of sustainable interventions in public spaces.
- Urban "requalification" projects should have as their objective the revitalization of urban activities, including the creation of spaces that stimulate existing socio-economic potentialities. The "urbanistic" organization, as through the implantation of leisure equipment and landscaping embellishments, should be associated with the economic vocation of the spaces in order to bring about the dynamics that make their sustainability possible.

[109] See Bezerra, *Campo Grande*, pg. 13.

- Public participation, understood as consultation, in the phase prior to the works is an important factor. However, it is not a determinant in order to obtain the (desired) results of urban "requalification" of the public space. The successful project is the result of solutions that involve the different segments with interests in the area, in its maintenance and lively use (*animacao*), liberating public authorities from permanent involvement in supporting the activities and spaces in order to keep them from again deteriorating.
- In order to "potentialize" the achievement of sustainability of the interventions undertaken, it is suggested that 'urbanistic' and economic incentives that involve new activities under the responsibility of private initiative be adopted in order to guarantee the maintenance and urban dynamics of the area. This can include the creation of areas for commercial activities, restaurants, etc, by the concession of the use of space within public spaces such as the Orla Morena and Orla Ferroviaria (a process which is already presently underway and includes the establishment of a series of small kiosks in the "orlas" themselves, as well as the spontaneous upgrading of commercial activities in some of the neighboring streets).
- A second recommendation with the same objective in mind is to identify the social actors that can be mobilized for maintenance and "animation" of the areas of intervention.[110]

The ESG visit in February 2013 included a tour of all of the major investment subprojects of Procidades Camp Grande, which are now largely completed, with the exception of the second stage of Orla Morena and the improvements to the Avenida Julio de Castilho. The toured works appear to have been well-implemented and are being actively used — and appreciated — by the local population, especially the Orla Ferroviaria and Orla Morena, as well as the significant urban mobility improvements already introduced in the Via Morena. Work along the Avenida Julio de Castilho is partially completed and will also represent an important improvement to urban traffic circulation, as it will be converted from what is now functionally a two lane non-divided road — parking is presently allowed in the curb lanes on either side — to a four-lane, divided one in which parking in the curb lanes will reportedly be prohibited once the upgrading interventions (including the new pavement and bridge, traffic signals, bus stops and street lighting) are finished. Clearly, this will also have a positive impact on adjacent property values

[110] *Ibid.,* pp. 14, 18-19.

and land use, as well as on vehicular traffic flows. Some of these tendencies are already evident along that part of the avenue where the improvements have already been completed in the form of the upgrading of some existing commercial establishments and the location of other new ones along this corridor. The corridor is expected to become in the future an even more important urban transport artery than it presently is, along the lines of the upgraded Via Morena.

This project, finally, is also clearly quite different from the one in Toledo, both in the sense that its subprojects are truly more integrated among themselves, and that it is essentially focused on physical infrastructure investments, as opposed to social facilities and natural/park improvements as well. This is so even though these also contain, as in the case of Toledo, a significant urban environmental and social improvement dimension, albeit not in terms of additional green space *per se*. Both projects, however, are the product of impressive ongoing local strategic urban planning processes — supported by competent local planning teams and visionary political leadership — and interventions that seek to structure (Toledo) or restructure (Camp Grande) key central city areas in pursuit of an improved economic, social and physical environment for urban residents in general, most of whom are not low-income. As a result, the same question posed in the discussion of the Toledo project above also applies to that in Campo Grande: how will the financial costs associated with the private economic benefits generated by these public investments (in terms of enhanced property values and improved local physical environmental conditions) be recovered? Such recovery would help pay for the initial investment and ongoing operation and/or maintenance costs of the new public infrastructure and facilities established through these Bank-supported urban development operations.

8. The Curitiba Integrated Urban and Social Development Project

Curitiba is internationally renowned for its carefully planned urban development over the past several decades. It has also in the past benefited from IDB financing for urban transport investments,[111] even though it was not eligible to receive funding under the earlier *Parana Cidades* projects, which were focused on cities and towns in the interior of the state. As a large state capital in a comparatively rich part of the country, moreover, it is not surprising that its indebtedness limit was sufficiently high that it could make maximum advantage of the funds

[111] Specifically, as observed in footnote 7 above, a US$120 million loan for major road and busway improvements, approved in July 1995.

available to an individual city (US$50 million) under the Procidades credit line, which it did through a loan approved in November 2009. The LP document for this project describes the socio-economic conditions in the city in the following way:

> The *município* of Curitiba, the capital of the state of Paraná in southern Brazil and a major development hub in the trade, services, and financial sectors, covers an area of 431 km2 and has a fully urbanized population of 1.8 million. The city is considered to be one of the country's three top capitals in terms of infrastructure and boasts good living conditions, as reflected in the broad coverage of its public services and its high score on the Municipal Human Development Index (HDI-M 2000), which improved from 0.799 in 1991 to 0.856 in 2000, a score that ranks it first in Paraná and 16th of 5,561 *municípios* in Brazil, and one that positions it alongside two of the top Latin American countries in the global ranking of the United Nations Development Programme (UNDP). Curitiba lies at the heart of the Curitiba Metropolitan Region, which is made up of 26 municípios. Curitiba is already completely amalgamated with eight of the nine bordering *municípios*, thus creating a nearly continuous urban area with 2.9 million inhabitants. Since the *município's* land is almost fully occupied, the Curitiba Municipal Government (CMG) plans and implements its programs using a metropolitan approach, in order to maintain and extend the high standard of living that has already been achieved.
>
> Curitiba is known around the world for its successful urban planning, which, since the 1970s and 1980s, has enabled it to mitigate various environmental and urban problems through innovative urban infrastructure, public transit, environmental protection, and social welfare solutions. Its integrated mass transit system has become a model for other cities in Brazil and throughout Latin America. It is also a point of reference in the housing sector in Brazil. In 2000, Curitiba's score on the Housing Deficit Index (ICH) was 0.973— the second best in Brazil after the city of Vitória in Espírito Santo (0.990). Another urban feature distinguishing Curitiba is the importance and care given to the environment. The city currently has 30 parks and some 81 million square meters of green areas preserved to protect some of the natural vegetation as well as local rivers. The city also boasts a wide variety of plazas, gardens, and well-treed public spaces, most of which are connected by a 150 km network of bicycle lanes. The quality of its municipal parks, its environmental education programs, and its innovative trash recycling program in particular have made Curitiba the "ecological capital" of Brazil.[112]

[112] IDB, 2009b, paras. 1.1-1.2, pp. 1-2.

Despite this very positive picture, Curitiba also faces some continuing urban challenges, which the LP characterizes in the following way:

> Urban planning has played a key role in the city's cohesive, harmonious urban development, avoiding the main problems faced by large, modern metropolises. Nevertheless, the metropolitan area's recent demographic and economic growth, paired with the economic boom in Brazil, has begun to a cause a number of problems relating to urban, social, and mobility conditions; for instance: (i) traffic fluidity has decreased substantially owing to accelerated growth of the vehicle fleet, which passed the 1 million mark in 2007, and grew 46% with respect to 2000; (ii) congestion has adversely affected mass transit service, with buses getting stuck in the road corridors, and the mass transit system is unable to meet demand in several areas, partly because of delays in starting operation of the Green Line,[113] a Bank-financed project that is now in execution (this new corridor was planned to divert 30% of the demand from the South Corridor—whose services are the most saturated); (iii) informal settlements lacking public utilities and services are growing in some parts of the *município* and the metropolitan area; in 2002 Curitiba had approximately 40,400 households living in *favelas* (7.5% of the city's total households), less than 15% of them having sanitation; and (iv) social welfare facilities and citizen services need to be expanded to keep up with the city's future growth and make it possible to improve living conditions for its neediest residents.[114]

In view of these problems, and "given the importance of comprehensively addressing the city's main urban, social, and mobility problems," the Curitiba Municipal Government (hereafter the "CMG") had requested Bank assistance through the Procidades credit line. The LP goes on to observe that "the proposed program is consistent with Curitiba's municipal master plan, which promotes urban development policies and identifies priority interventions. The program strategy is to assist the CMG in making improvements to urban infrastructure in the areas of housing, social development, and roads, taking into account the priorities identified in the master plan and municipal planning instruments, and to provide support for institutional strengthening of the CMG."[115]

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[113] More specifically, the LP observed in a footnote that "the second phase of the Curitiba Urban Transport program (loan 1526-OC/BR) suffered delays from the outset owing to legal problems surrounding the competitive bidding process for the Green Line. In addition, the program was approved when the exchange rate was RS$ 3.60 to the dollar; the less favorable exchange rate and cumulative inflation since 2004 have forced more than 65% of the planned projects to be cut." (*Ibid.,* pg. 3)

[114] *Ibid.,* para. 1.4, pp.. 2-3.

[115] *Ibid.,* para. 1.5, pg. 3.

The project's general objective, accordingly, is "to promote improved quality of life for residents of the *município* of Curitiba by financing strategic projects in the areas of *favela* improvement, mobility, and social development." Its specific objectives are "to: (i) improve urban services and environmental health conditions in low-income neighborhoods; (ii) improve the city's mobility conditions, lowering transportation costs and cutting travel times; (iii) expand coverage of social welfare and citizen services in the neediest areas; and (iv) strengthen the institutional capacity of the CMG."[116] These objectives were expected to be achieved through the following components:

Engineering and administration component (US$5.5 million)

This is to finance:

(i) economic, technical and environmental feasibility studies; detailed designs for program works; and surveys for the results framework**;**

(ii) expenses associated with program management and the hiring of consultants to assist the Technical-Administrative Management Unit (TAMU, later known simply as the Project Management Unit, or PGU); and

(iii) the engagement of specialized consulting firms to support program supervision and ensure adherence to work schedules and technical specifications.

Favela improvement component (US$27.4 million)

This is to finance works, services, and urban improvements for seven priority *favelas*, including investments in basic infrastructure (electricity, water, drainage, sewerage, public lighting); road paving; and social, sport and recreational facilities (schools, sports areas and public squares). It will also finance costs associated with resettling affected families and formalizing property ownership. Neighborhoods were selected for this component based on a number of environmental, legal and socioeconomic technical criteria. The component will benefit a total of 15,000 people.

Transportation and urban mobility component (US$33.2 million)

This is a multiple-works component that was expected to finance 10 interventions, including the construction of three grade-separated intersections, the expansion of two bridges and the

[116] *Ibid.,* para. 1.6, pg. 3.

upgrading and paving of several urban roads totaling approximately 24km in length. Two of these projects were already eligible for financing under Bank loan 1526/OC-BR, still in execution, but the scope of that operation was reduced because of the dollar's sharp decline. It would also finance the replacement of 3,100 incandescent traffic signal lamps at some 86 intersections with lenses that use modern light-emitting diode (LED) technology. The representative sample included five projects: Waldemiro Pedroso Street, Desembargador Antonio de Paula Street, the Gustavo Ratmann underpass, the Chile/Guabirotuba road pair (*binário*) and the Fredolim Wolf corridor. Together, these represent 65% of the budget for the 10 interventions. Eligibility of the projects not belonging to the representative sample would be established based on an economic appraisal following the same methodology used for the sample. The intervention must be shown to have an economic internal rate of return of 12% or more.

Social development component (US$21.7 million)

This is to finance investments to supplement the social infrastructure so as to expand the network of social welfare and citizen services, especially in the city's most underserved areas. The investments will complement existing plans in the social welfare sector and the CMG's priorities for enhancing citizen services. The component is divided into three subcomponents based on the type of investment: (i) social welfare resource centers; (ii) community centers; and (iii) *Ruas da Cidadania*.

The first subcomponent would build and equip **up to seven social welfare resource centers**.[117] These centers will be located in the city's most underserved areas: pockets of poverty in the Parolín, Tres Pinherios, Unidos de Umbará, Parque Nacional, Rio Bonito, Rose-Barigui and Audi Uniao neighborhoods. Five of these seven areas will also benefit from the *favela* improvement component, so interventions under the two components will complement one another. The social welfare resource centers to be financed will benefit an estimated total of 17,000 families (an average of 2,400 families per center).

The second subcomponent would build and equip **three community centers**, to be located in the areas of Pinheirinho, Boa Vista and Bairro Novo. The main criterion for selecting

[117] These centers are known in Parana as CRASes, or *Centros Regionais de Asistencia Social*, and are essentially the same as the Jardim Panorama Social Assistance Center in Toledo, also financed under Procidades and briefly described in Section D above.

these three areas was the ability to service residents of the city's fastest-growing areas who lacked a facility of this type in their neighborhood. Each center will benefit an estimated 15,000 people annually.

The third subcomponent will build and equip a ***Rua da Cidadania***[118] in Cajurú, which will directly benefit the 220,000 residents of that region. The existing *Rua da Cidadania* needs to be relocated because it currently operates out of a small space and is unable to provide all the services offered at other *Ruas da Cidadania*. It will be located near the new Capão da Imbuia public transit terminal, to make it easy for users to reach. An estimated 1 million cases will be handled every year by this location.

Institution-strengthening component (US$1.6 million)

This component is divided into two subcomponents. The personnel management subcomponent includes two sets of activities: (i) review of human resources legislation and policy; and (ii) expansion of capacity building for local and regional managers and municipal civil servants. The productivity and quality subcomponent calls for implementation of a strategic service window and a strategic information system.[119]

The project would also cover the cost of expropriations to acquire the right-of-way to widen urban roads and the land for resettlement and neighborhood improvement (i.e., slum upgrading), estimated to require a total of US$9.68 million, and for environmental mitigation measures, estimated to require US$0.74 million, of which the former would be totally financed with local counterpart funds. The anticipated total cost of the project is US$100 million and was expected to be evenly divided between the Bank loan and local counterpart financing. As in the case of other Procidades projects, some of the subprojects had already been initiated or approved by the Bank, including the transportation and urban mobility investments mentioned above that were originally expected to be financed under the earlier Bank-supported urban transport project. Some of the *favela* upgrading and associated relocation housing investments were also expected to be financed under the project. These subprojects would be executed by COHAB, a state arm

[118] In Curitiba, a "*Rua da Cidadania*" is a regional office of the municipal government (*Prefeitura*) that provides a range of administrative services (*cases*) to the population of the surrounding neighborhoods. This is one of seven such facilities (*Sub-Prefeituras*) in the city. Cajuru is reportedly one of the less affluent areas within the municipality.

[119] IDB, 2009b, paras. 1.7-1.14, pp. 4-6.

of a federal housing company, which would contribute to the project's counterpart funding requirements together with the municipality of Curitiba itself.[120]

As in the case of the Procidades project in Campo Grande, the technical unit that is responsible for program management in Curitiba (UGP) is also responsible for coordinating other major improvements that are being undertaken in the municipality at the same time. These include further investments to extend the abovementioned Green Line, which are being financed by the French Development Agency, as well as other local road improvements funded by the federal government in anticipation of the Soccer World Cup in 2014. These include the widening and repaving of the road from the metropolitan airport (located in the neighboring municipality of Sao Jose dos Pinhais) into downtown Curitiba. Thus, the UGP is responsible for overseeing numerous simultaneous development interventions in the municipality.

One very interesting — and important — feature of this project that differentiates it from the two other reviewed Procidades operations, however, is the hiring of two consulting firms to support the already technically capable project coordination unit. That unit itself is linked to the well-known Urban Research and Planning Institute of Curitiba (IPPUC), with whose new President and External Affairs Advisor ESG met during its visit to the project in February 2013.[121] One of the two consulting firms is specifically involved in monitoring environmental aspects of the project, including the environmental performance of all contractors, using a very innovative methodology (about which more will be said below). This management arrangement — i.e., the contracting of a specialized private consulting firm, or in this case, two firms, to support project coordinating units in the public sector — is similar to that adopted in Prodetur, another major Bank-supported subnational multi-sectoral multiple global works program in Brazil for sustainable tourism development.[122] In Curitiba specifically, moreover, this seems to reflect earlier management arrangements for the Bank-financed urban transport project. Indeed, a number of the key consultants now providing assistance to the coordinating unit for the ongoing Procidades operation previously provided similar support for implementation of this earlier Bank project as well. At that time, the contractor environmental performance monitoring arrangement (to be described in greater detail below) was initiated with strong Bank encouragement and

[120] *Ibid.,* cost and financing table, pg. 6.

[121] Specifically, Sergio Povoa Pires, President, and Luisiana Paganelli Silva, External Affairs Advisor, of IIPUC at their request on February 19, 2013.

[122] See Redwood, 2013.

support.[123] Given Curitiba's size and complexity — as compared with small Brazilian cities such as Toledo and even Campo Grande — these project management arrangements seem highly appropriate and appear to be quite effective and should therefore be strongly considered, if they haven't already been adopted. They may be appropriate for other larger-scale Procidades and even larger Bank-supported urban development operations with similar characteristics in places such as Manaus, Recife, Fortaleza and Goiania, and perhaps also for other state capitals, such as Vitoria, Aracaju and Sao Luiz.

Returning to the design of the present operation, the LP describes its "environmental and social risks" as follows:

> In keeping with the Bank's Environment and Safeguards Compliance Policy, a program environmental report (PER) was prepared together with the CMG during program preparation. The PER outlines impact mitigation and compensation measures and environmental control measures to ensure the benefits expected under the program. The PER found that the program will have no significant adverse environmental impacts, but only small-scale temporary impacts related to changes in the physical and socioeconomic environment, such as: (i) expropriation of some properties; (ii) voluntary resettlement of the families affected by the program, ensuring that they are as well or better off than prior to the intervention; (iii) changes in traffic patterns during construction; and (iv) noise, dust, and air pollution in areas near the construction sites. The corresponding prevention, mitigation, and environmental control measures are described in the PER, which also includes a resettlement plan prepared using the same criteria used for involuntary resettlements, as requested by the Environmental and Social Review group on 21 December 2007 upon review of the project profile. Based on the above, and pursuant to policy OP-703, the program has been classified as a category "B" operation.[124]

Due to the fact that the project would involve voluntary resettlement (as the affected families agreed to be relocated) from the slum areas, which would be upgraded into new public housing projects built by COHAB, the Bank also instituted the following requirement: "in continuation of its preparation activities, the CMG will finalize the detailed resettlement plans for the two neighborhoods selected for the representative sample. Accordingly, submittal to the

[123] Bank staff members Gustavo Acevedo and Rosana Brandao, who were involved in supervising the earlier Urban Transport project in Curitiba, were specifically credited in this regard. Personal communication from Cristina Nagata Carazzai, February 2013.

[124] IDB, 2009b, para 2.3, pp. 7-8.

Bank of the specific resettlement plans for the two projects in the representative sample for the *favela* improvement component will be a condition precedent to the first program disbursement. The Bank has hired a specialized consulting firm to assist the CMG in developing the two detailed plans, so this task should be completed prior to negotiations, in which case this condition precedent could be removed from the contract."[125]

The project also has a specific Environmental Management Plan (*Plano de Gestao Ambiental*, or PGA), which was issued in November 2007, or two years prior to Bank loan approval. This is presumably the PER referred to above. This plan provides a more detailed description of the objectives of the various project components and identifies its own objectives: "to define the environmental protection measures to be followed during the execution of the Program's civil works, together with actions for monitoring environmental quality during the operation phase of the undertaking, for the revitalization and socio-economic development of the region under the influence of the Program and actions that aim toward the proactive participation of the population throughout the entire process." In addition, it seeks "to ensure that all the environmental programs are effectively implemented and to serve as a link between the field teams and the Project Management Unit (UGP), as well as with the environmental agencies, IPPUC, SMMA [the Municipal Environmental Secretariat], URBS [the Urban Services Department of the municipal government] and other institutions involved in the Curitiba Integrated Social and Urban Development Program — BID III, in particular the financing agency."[126]

The so-called "macro objectives" of the PGA, in turn, are:

(i) monitoring and oversight of the civil works and all of the environmental programs;

(ii) ensuring implementation of all the environmental measures foreseen;

(iii) systematizing information about environmental issues to be sent to IDB;

(iv) implanting and operating the work (i.e. construction) camps in an environmentally adequate manner;

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[125] *Ibid.,* para. 3.13, pg. 14.

[126] See, Prefeitura Municipal de Curitiba, 2007, pg. 9. This project is known locally as "BID III", as the two earlier urban transport operations — i.e., the US$120 million loan approved in July 1995 (BR-L-0209) and the follow-on US$80.4 million loan approved in January 2004 (BR-L-0375) are known as BID I and BID II, respectively. Thus, the present Procidades operation in Curitiba is viewed as a direct continuation, outgrowth and expansion of the earlier transport projects, although it is being supervised by a different Bank division.

(v) ensuring that the labor force utilized does not contribute to environmental degradation;

(vi) ensuring the lowest level of interference of the work camp activities and the labor force with the daily life of the communities;

(vii) avoiding, minimizing, controlling or mitigating potential significant impacts during the construction period;

(viii) ensuring continued compliance with the applicable environmental legislation; and

(ix) diminishing interference with the local community.[127]

It goes on to clarify that:

> Implantation of the undertaking involves a series of physical interventions that require the execution of simultaneous activities with the purpose of conserving the environment, such as the installation and operation of work camps, control of the labor force, combatting erosive processes and slope instability, the disposal of wastes generated, the transportation and operation of equipment, noise control, temporary preventive signage, care with historical-cultural heritage, etc,, activities that can have their impacts minimized through the recommendations and requirements contained in this Program. The PGA comprehends all of the firms that will participate in the implementation of [Procidades Curitiba — BID III[128]], including agreements to be signed with consulting firms and workers in general. It comprehends the environmental monitoring and oversight of the installations and operation of the work camps and the entire direct area of influence of the civil works. Including, in their objectives, safety of the population affected directly or indirectly by the undertaking. Thus, the PGA for this project is a planning tool that involves the entire undertaking and all of its environmental programs, establishes the directives and procedures to be adopted by the CMG under the coordination of the UGP directly or through its consulting and construction firms, IPPUC, SMMA, URBS, responsible for Program execution, in order to manage and minimize its environmental impacts during the construction phase.[129]

The PGA then observes that the "environmental programs" to which it refers are based on the environmental assessment report (RAA) presented to the IDB and that the "environmental

[127] *Ibid.,* pg. 9. My translation from the original Portuguese.

[128] It should be recalled that, in local parlance, BID I and BID II refer to the two previous urban transport projects in Curitiba.

[129] Prefeitura Municipal de Curitiba, 2007, pp. 9-10.

management entails directly or indirectly all of the activities contained in five Programs and their subprograms" in different areas, more specifically:

- **Social Communication Program**, with a single subprogram for communication and social integration;
- **Environmental Education Program**, with subprograms for (i) environmental education for "multipliers"; (ii) environmental education for the community; and (iii) environmental education for project workers;
- **Environmental Supervision Program**, with subprograms for: (i) environmental management of the work camps; (ii) environmental management in the maintenance of vehicles, manipulation of fuels and bituminous materials and disposal of used oils; (iii) worker health and safety; (iv) operational safety during the construction period; and (v) contingencies and environmental accidents;
- **Environmental Recovery Program**, with subprograms for: (i) landscaping and recovery of green areas; and (ii) elimination of environmental liabilities; and
- **Noise and Atmospheric Emissions Control**, with subprograms for: (i) noise control; and (ii) air quality control.[130]

Each of these programs is then detailed further in the PGA but will not be further described here. It should nevertheless be evident from the above that Procidades Curitiba possesses **a comprehensive environmental monitoring and oversight plan that can be considered best practice** among the Procidades projects reviewed by ESG as part of this exercise, especially given its systematic **monitoring and control of the environmental and worker health and safety performance** of all contractors involved in the project. It has **a correspondingly impressive environmental management system** (or *Sistema de Gestao Ambiental* [SGA] in Portuguese), whose primary responsibility according to the PGA is to "guarantee that the specific programs to prevent, mitigate and compensate for adverse or negative impacts and 'potentialize' the positive impacts or benefits foreseen for BID-III Program effectively meet the following functions:

[130] *Ibid.,* pp. 10-11.

- accompany all phases of the basic and executive project, identifying, qualifying and quantifying the actions that generate impacts, as well as their alternatives, with the purpose of choosing the most environmentally adequate one;
- participate in the selection and formulation of the documentation necessary for continuation of the environmental licensing process for the Program;
- elaborate the environmental requirements to be complied with by the executing firms for the civil works, as well as supervise the execution of these works evaluating their effects during and after the works are carried out;
- promote institutional coordination activities and accompany them as a way of making the undertaking environmentally viable by means of the elaboration and implementation of technical studies that will result in the agreements among the agencies and entities that will intervene in the Program; and,
- detail, structure and implement the environmental actions and programs foreseen in the PGA, providing the human and material resources necessary and establishing chronograms compatible with those foreseen for execution of the civil works."[131]

The PGA, finally, observing that the SGA is a responsibility of the UGP, states that this system should have the following principal characteristics:

(i) a small, agile, multi-disciplinary management structure that is truly representative of the agencies and entities that will intervene in the Program;

(ii) adequately defined functions and responsibilities, so as to provide the unit with the necessary means for the correct compliance with the [project's] targets; and

(iii) related and preliminarily defined activities that respond fully to the work plan instituted by the UGP.

It also noted that the environmental manager within the UGP would have responsibility for implementation of the PGA and that the UGP team should "have the experience to take the necessary initiatives for joint work (*trabalho conjunto*) and [act] in strict collaboration with the Municipal Environment Secretariat and the other entities involved in Program planning and

[131] *Ibid.,* pg. 15.

intervention."[132] This document goes on to detail each of the five "environmental programs" and subprograms mentioned above, as well as the more specific functions, responsibilities and activities of the SGA.

This is clearly a good example of an environmental management plan, although both it and the performance monitoring system subsequently put in place by the UGP — having been based in part on the previous environmental analysis studies for the project — **tend to neglect possible indirect environmental and/or social impacts of specific project investments, especially those under the urban transport and mobility component**. This is a shortcoming that was also found with respect to the other Procidades projects recently visited.[133] One clear example of this comes from the field visit to one of the road improvement subprojects in the southernmost part of the municipality. This investment, which is partially completed, involves the widening and paving of 7.5km of the Rua Eduardo Pinto da Rocha,[134] which does not appear to have been part of the "representative sample" analyzed by the Bank for the multiple works transportation and urban mobility component. This was described by the PGU's acting coordinator and Technical Manager as being undertaken both to improve traffic flow and to stimulate private housing and other investment in what is viewed as Curitiba's current "growth pole."[135] Other local informants indicated to ESG that implantation of this "growth pole" in what presently appears to be a lower and moderate income part of the city is expected to result in the building of a number of new middle and higher income housing and condominium developments. This outcome would most likely result in the displacement of at least some of the existing residential and commercial activities and thus indirectly have a negative social impact. However**, this potential indirect impact was not identified in the up-front environmental studies and thus has not been taken into account in project planning and/or mitigation measures.**

[132] *Ibid.,* pp. 15-16.

[133] This affirmation is based both on the present consultant's review of this earlier environmental assessment study and verbal confirmation by the head of the consulting firm that is supporting the UGP with respect to implementation of the SGA and environmental performance monitoring of the contractors.

[134] This street appears to be an important — and formerly narrow, deteriorated and heavily trafficked and thus congested, judging from the section still to be improved — east-west thoroughfare that connects two important north-south corridors, one of which (to the west) is an extension of the earlier Bank-financed Green Line that is still in the process of being upgraded with funding from other sources.

[135] Personal communication from Paulo Roberto Socher in Curitiba on February 14, 2013.

In addition, local informants also pointed out that at least one of the other road improvement investments — the Avenida Fredolim Wolf corridor, which involves improvements, including widening and repaving, along nearly 8km — also visited by ESG is in a high-income residential neighborhood in the northernmost part of the municipality. ESG's field visit to this subproject, which is nearly totally completed, confirmed this. Thus, **it can be seriously questioned whether — or at least the extent to which — these subprojects, and the transportation and urban mobility component as a whole, are intended to benefit low-income populations**. Such benefits are part of the stated purpose of the Procidades credit line, as observed in the beginning of section C above.[136]

The slum upgrading component, on the other hand, is clearly intended to benefit lower income populations, though ESG's visit with UGP and COHAB officials to one of the *favelas* to be upgraded (as well as to the relocation housing site, where construction is presently occurring) in the northern part of the municipality revealed that there is also what can only be described as middle-income housing in these areas as well.[137] The subprojects under this component, however, are primarily designed to remove *favela* residents from low-lying areas, generally along the margins of local watercourses, as was also the case with the Soter and Imbirissu Projects in Campo Grande in the previous section of this report. Such watercourses are subject to flooding and generally characterized by poor, if any, sanitation. The specific subproject ESG visited in February 2013, in fact, involved actions both by the federal government entailing relocation of the residents at the lowest level — i.e., closest to the watercourse in question — and by the Bank through the Procidades project. These actions involved those at a somewhat higher level, including some who needed to be resettled into the new housing project in order for the

[136] In this regard also, ESG's visit to the *Rua da Cidadania* subproject, which is presently under construction in Cajuru in the eastern part of the municipality, revealed that this a very large structure. ESG's subsequent visit to IPPUC, which hosts architectural models of both this subproject and a typical social welfare center (CRAS) whose construction has not yet been started under Procidades Curitiba, suggests that these will be impressive and nicely designed buildings once they are completed. It is not clear, however, whether the Bank previously assessed these buildings in terms of the cost-effectiveness of their designs and construction. The *Rua da Cidadania* project, however, was praised for its creative use of recycled materials by the UGP environmental specialist who is accompanying its implementation.

[137] This is not uncommon in Brazil, especially in older *favelas* — i.e., those whose residents have been present for several decades and, in some cases, over several generations — where some family capital accumulation has been possible and home improvements have been made. It should also be remembered that slums, or *favelas* in the Brazilian context, are generally located on public or private land that has been "invaded" and thus where actual land tenure is either unclear and/or occupation by its current residents is technically illegal.

other slum-upgrading activities, including land tenure regularization, to take place.[138] While visiting COHAB prior to visiting the subproject sites, ESG was given an excellent presentation by trained specialists on COHAB's social and community assistance and outreach work, as applied in the Curitiba slum-upgrading and relocation-housing subprojects. This approach appears to be fully consistent with Bank resettlement requirements, though ESG was later informed during its visit to Campo Grande that the Bank required post-resettlement assistance for a full year after physical relocation of a family or household, while the Brazilian government only required such support for six months after that date.[139]

The highlight of ESG's recent visit to the Procidades Curitiba project, however, was a detailed presentation provided by the UGP and its specialized environmental management consultant team on the methodology they had developed to monitor and control the environmental performance of the project's construction contractors. This methodology applied both for the transport and urban mobility component and for the *favela*-upgrading and social-development components — in short, on all project investments that involve construction activities.[140] This began initially for urban transport investments — i.e., road construction subprojects under the earlier Bank-financed Urban Transport II project — and was subsequently extended by the team to also cover the other components involving construction activity. In a nutshell, the team started with all the specific environmental action requirements contained in the environmental assessment/management plan and environmental licensing documents, together with the prevailing federal, state and local environmental legislation, as well as the PGA and individual procurement documents and subsequent contracts for each of the investment subprojects. These documents formed the basis for a detailed checklist of the environmental

[138] Ironically, even though the federal government's intervention started well before the Procidades subproject, construction of the part of the new housing complex (known as *Projeto Maringa I*) to which the slum residents presumably most environmentally precarious situation in the water basin were to be relocated had stopped due to a combination of serious procurement and engineering problems. Meanwhile, the adjoining part of that complex (known as *Projeto Maringa II*), which was being financed with Procidades funds and was to eventually benefit other residents of the same *favela* who were facing a less serious plight, was going full steam ahead. Thus, the "IDB slum dwellers" are highly likely to be relocated into better housing and environmental sanitation conditions before the "federal government" ones.

[139] Personal communication from Jason Hobbs, IDB project leader for Procidades Camp Grande and formerly for Procidades Toledo, February 25, 2013.

[140] This methodology is summarized in an excellent two-part Power Point presentation entitled *Sistema de Avaliacao Ambiental BID-Procidades* that was prepared by the UGP in February 2013 and presented by Sandra Guapyassu.

management and monitoring activities to be carried out prior to and during construction by the contractors for each specific subproject.

Performance in relation to each of these items was then quantitatively scored on the basis of several criteria and the individual scores were then weighted and combined into a summary environmental performance index for each contractor. This index was updated monthly on the basis of at least weekly visits to each subproject construction site by one of the five members of the UGP's environmental management team. If the contractor did not achieve a minimum combined index value environmental performance score determined by the UGP for a given month, it would then be issued a warning letter to this effect by the UGP. If less than fully satisfactory performance persisted, the next month's payments to the contractor would be suspended until it corrected and/or adequately compensated (environmentally) for its infractions in terms of expected good environmental performance. These visits by the environmental supervision team and monthly scores also form the basis of monthly environmental supervision reports prepared by the team for each subproject, including, for example, the Rua Eduardo Pinto da Rocha and Avenida Fredolim Wolff road improvement investments mentioned above.[141] Box 1 displays the standard table of contents for these monthly reports.

[141] See, for example, the environmental supervision report No. 15 for the first of these projects for June 2012 and report No. 6 for the second for December 2012, both of which were provided to ESG during its February 2013 visit.

Box 1 Table of Contents of the Monthly Environmental Supervision Reports for Prociades Curitiba

- Subproject Location
- Quantity of Services Executed
- Environmental Supervision Activities during the Period
    - Monitoring and oversight of civil works
- Environmental Performance of the Works
    - Synthesis of the valuation methodology for environmental performance
    - Aspects and conditions of the environmental license and environmental control requirements
    - Environmental education program
        - Environmental education subprogram for the workers
    - Environmental supervision program
        - Environmental supervision of the work camp subprogram
        - Environmental supervision of the vehicle maintenance, manipulation of fuels and bituminous materials, and disposal of used oils subprogram
        - Worker health and safety subprogram
        - Operational safety during the works period subprogram
    - Environmental recovery program
        - Landscaping and recovery of green areas subprogram
        - Elimination of environmental liabilities subprogram
- Synthesis of the Environmental Performance of the Works
- Emission of Certificate of Environmental Conformance of the Subproject

Source: Municipality of Curitiba, monthly environmental supervision reports

The contents of these reports correspond to the elements of the "environmental programs" contained in the PGA as briefly described above, and this innovative approach to monitoring and controlling the environmental performance of all contractors involved in executing the physical construction components of the project is a clear example of a best practice. This best practice could, and should, be widely replicated in other Procidades, as well as in other development projects in Parana and other parts of Brazil. It should also be widely disseminated among Bank operational staff in Brazil and elsewhere.

9. Conclusions and Recommendations

The Curitiba Procidades project, like those previously examined in Toledo and Campo Grande, provides an example of good — if not best — practice either in terms of the way environmental and, in some cases, social considerations are integrated into a project's design. Such considerations are an integral part of local urban development strategies and plans, and may also

be important in how their implementation is managed from an environmental and social perspective. The following paragraphs will briefly summarize these aspects and the key lessons that can be learned from them, followed by a brief discussion of the role of the Bank and its staff and consultants, as well as recommendations as to how the Procidades program in particular, together with other multi-sectoral urban development projects in Brazil and other IDB client countries, can further benefit from them.

9.1. Environmental and Social Considerations (and "Mainstreaming") in Integrated Urban Development Projects

The Procidades projects in both Toledo and Campo Grande illustrate good practice in different ways, in terms of the incorporation of environmental considerations in integrated urban development projects. The Toledo project included a specific environmental improvement component. Thus, other than for purposes of slum upgrading (which involves the betterment of local low-income neighborhoods from a physical environmental and public health standpoint) and/or environmental sanitation (water supply and sewerage), it has been **only one of two Procidades operations** to specifically do so to date. The other was the project in Passo Fundo (RS), which dedicates part of an "urban development and green spaces" component to this purpose. That other Procidades projects have not also done so represents **a missed opportunity, as does the failure to include solid waste management and disposal components in these operations**.

In the case of Toledo, moreover, the environmental improvement component has played an important role both in terms of environmental preservation through expansion of the local park system and in terms of helping to orient and structure the city's future expansion. Thus, it has **been instrumental both in environmental and urban spatial development terms**. Similarly, in Campo Grande, the Procidades project has played an essential role in terms of making positive and creative use of a deactivated rail line right-of-way that penetrates into the heart of the central city. It has also significantly and simultaneously upgraded this previously deteriorated downtown corridor from a physical, environmental, economic and social perspective, in part through a valuable local public consultation and participation process. **Both of these approaches to urban development could, and should, be more widely replicated in other Procidades and multi-sectoral urban investment projects, whether supported by the IDB or with funds and/or technical assistance from other international and/or domestic**

sources. This could be further enhanced by incorporating specific environmental and social management components in each of these projects, as is presently the case with all of the Bank-financed state-level sustainable tourism development projects (Prodetur) in Brazil.[142]

As suggested in the environmental supervision report for Campo Grande, however, the Bank could, and should, go even further in this regard by taking advantage of the Procidades and other urban development projects it finances to **proactively promote both specific local environmental improvements**. Toledo and Camp Grande provide strong examples of such, as does Curitiba in terms of slum upgrading. The Bank also could, and should, **introduce environmental sustainability concerns more broadly in urban planning processes and resulting investment plans.** The need to incorporate solid waste management, including adequate disposal, components or subprojects has already been mentioned. However, this would **also include conscious efforts (i.e., investment and institutional strengthening components or subprojects) to mitigate and adapt to the likely impacts of climate change. These efforts may include energy efficiency and alternative (i.e., renewable) energy investments, improved water resource management, introduction of "greener" building techniques and so on.** The Bank, therefore, can, and should, play a more active role in this regard, including by **linking ongoing and future urban development initiatives such as Procidades in Brazil and similar programs and/or projects in other client countries with its new "Sustainable Cities" initiative.** In this connection, it is interesting to note that some of the Prodetur sustainable tourism projects referred to above, which also include actions at the municipal level — those in the northeastern state of Ceara, for example — include solid waste management, together with other environmental sanitation infrastructure and service components.[143]

Curitiba is noted, quite appropriately, for the history, quality and impressive results of its urban transport and land use planning and environmental management processes over the past four decades among major metropolitan areas and cities in the developing world, both in Latin America and more widely. However, its current Procidades project is less spatially and sectorally integrated than those for Toledo and Campo Grande. Instead, it constitutes a set of sector-specific investments and subprojects for slum upgrading and relocation housing, urban road

[142] See Redwood, 2013.

[143] This project, which is also presently under implementation, more specifically includes a regional solid waste management subproject designed to benefit a number of municipalities in one of the priority tourism areas in the state, polarized by the historic city of Aracati.

improvements and construction of new social and administrative facilities in widely differing parts of the municipality. From an urban development standpoint, it thus represents a kind of "gap filling" exercise in which the project is being used to meet specific investment needs in these respective sectors.

While part of these investments are clearly oriented toward meeting needs of lower income populations, the transport and urban mobility subprojects seem likely to primarily benefit middle and/or upper income groups. Thus, they would appear to be less appropriate for inclusion in a program whose investments are intended to "be part of a municipal development plan that considers general priorities and prioritizes the sectors with the **greatest social and economic impact**, preferably oriented to low-income populations," according to the Procidades "mission statement." In this case, such investments would indeed **seem likely to have a substantial and positive indirect economic impact, but possibly a less positive social one, either because they are located in existing predominantly higher-income neighborhoods** — as in the case of the Avenida Fredolim Wolff improvements **— or because they are intended in part to help polarize future middle- and upper-income residential and commercial development. This process could adversely affect existing lower-income residents**, as appears may be the case in the area of influence of the Rua Eduardo Pinto da Rocha improvements.

In the urban development context, infrastructure improvements, especially those done for roads (as in the case of the Rua Eduardo Pinto da Rocha subproject), are in fact likely to have **more significant indirect social impacts** than environmental ones in neighborhoods that are already occupied, such as the southern part of the municipality of Curitiba. This is so to the extent that they **affect land values and, more importantly, land use**. Indeed, this seems to be the case here, where that is part of their purpose, in addition to improving traffic and mobility in the area. Thus, such investments can be and often are **"inducers," or facilitators of broader local development processes affecting residential and commercial activities**. They may also affect well as vehicle and pedestrian flows **in a road's immediate area of influence**. This, in turn, can result in both **economic and social benefits and costs**, as the result of the associated changes in (or transformation of) the built environment in this area over time. In short, it can result in a kind of **local "gentrification" process, whereby existing lower-income residents are dislocated and replaced by higher-income ones** as transportation facilities and other conditions improve over time. This process is quite common in rapidly evolving cities in the

developing world, and through planned urban renewal processes in the developed one as well. However, it can and does bring social costs to one part of the population — namely, the existing residents who are displaced and perhaps end up in even less adequate living conditions, including slums. However, it does bring benefits to those who replace them as the areas involved increase in value, access and amenities. However, these type of possible indirect impacts, while seemingly quite relevant in this particular case, were not picked up in the environmental studies carried out, nor contemplated in the environmental and social management plan or monitoring activities for the Rua Eduardo Pinto da Rocha subproject, according to the local project coordination team.[144]

Although this does not presently appear to be the case in Curitiba, road and other infrastructure improvement subprojects in urban development projects may also have **indirect environmental impacts** in their areas of influence. These impacts may be seen to the extent that they affect land values and use, particularly by inducing and/or facilitating the occupation or densification of previously unoccupied or sparsely occupied land within the larger urban context. These possible indirect or induced development effects, **which may include land clearing, deforestation, erosion, alteration or sedimentation of water courses and other physical impacts on the natural environment** thus also need to be identified, assessed and, if significant, mitigated and/or compensated for. The same applies to those that occur within the construction zones — or immediate areas of influence of these investments — themselves.

In such situations — and in urban infrastructure improvement and development projects more generally — it would be imperative **for the Bank to make an evaluation of possible positive and negative indirect and cumulative social and environmental impacts of any such proposed investments or subprojects a part of the process of determining their eligibility for financing under a program with the declared purpose and objectives of Procidades.** This should be done **independently of whether it is required by national legislation for environmental licensing purposes. In so doing, the Bank could ensure full compliance with its environment, safeguard and other pertinent policies.** In the case of global multiple works projects or components, moreover, this should occur both for the "representative" sample projects analyzed by the Bank as part of its project appraisal process and for each of the subsequent proposed subprojects. In short, it is important to observe in this regard

[144] Personal communication from Cristina Nagata Carazzai, February 2013.

that Section B.5 of OP-703 explicitly requires, *inter alia,* that "**due consideration…be given to** analyzing compliance with relevant legal requirements; **direct, indirect, regional or cumulative impacts**, using adequate baseline data as necessary; impact mitigation and management plans presented in an ESMP; the **incorporation of EA findings into program design; measures for adequate follow-up of the ESMP's implementation**."[145]

One final and more general element concerning **the social orientation of the Procidades program** should also be briefly considered: **the types of municipalities and cities that have benefited from use of the credit line to date**. For the most part, these have been either state capitals (e.g., Curitiba, Vitoria, Campo Grande, Manaus, Aracaju, Sao Luiz and Recife) or relatively prosperous cities in the interior of the more wealthy southern and southeastern states (Parana, Santa Catarina, Rio Grande do Sul and Sao Paulo). In fact, of all 17 Procidades projects that have been approved to date, only 4 have been outside the higher-income South, Southeast and Center-West regions, and all of these have been for state capitals (Manaus, Aracaju, Sao Luiz and Recife), which are normally the highest-income cities both in absolute and per capita terms in their respective states.[146] This observation also applies to the eight additional Procidades operations that are presently under preparation, none of which is in the comparatively poorer Northeast and North regions. Thus, to date, the program has been **biased in favor of those cities which are relatively better off to start with**. Curitiba,[147] Campo Grande, and Toledo are all prime examples. This no doubt reflects in part the greater indebtedness capacity of these cities relative to others, including ones of similar demographic size. However, it also reflects their comparatively greater administrative and technical capacity (including urban planning) and perhaps political influence, especially in the case of the state capitals. **In short, the program has**

[145] IDB, 2006a, pg. 9. Emphasis mine.

[146] This remains true even for the other major cities that are currently benefitting directly from Bank-supported multi-sectoral urban development or environmental sanitation operations, namely Fortaleza, Goiania, Sao Paulo and Rio de Janeiro.

[147] Curitiba, in fact, was the third richest large Brazilian city in terms of per capita GDP (US$17,160), following Brasilia (US$30.027) and Sao Paulo (US$23,372). It was the fourth richest in all of Latin America, also following Monterrey, Mexico (US$22,191), which came in third. It surpassed Santiago, Chile; Buenos Aires, Argentina; Montevideo, Uruguay; and Panama City, Panama, which ranked fifth, eighth, ninth, and tenth, respectively. Belo Horizonte in Brazil was sixth and Maracaibo in Venezuela was seventh. The eleventh through thirteenth positions also went to Brazilian cities (Rio de Janeiro, Salvador and Porto Alegre, respectively), and the fourteenth and fifteenth spots to Mexico City and Lima, Peru. Curitiba also had the eleventh highest GDP among all large Latin American cities, with Sao Paulo having the highest, followed by Mexico City and Buenos Aires. Rio de Janeiro, Brasilia, Belo Horizonte, Porto Alegre, Salvador, Recife and Fortaleza ranked at Nos. 4, 5, 9, 12, 13, 16, and 17 respectively. The top 24 also included Santiago, Bogota, Lima, Monterrey and Caracas, among others.

been used to support those intermediate and large Brazilian cities that are already comparatively better off relative to many others, especially those located in the Northeast and North. In the years ahead, therefore, the Bank should make a conscious effort to **correct this imbalance by proactively seeking to support similar urban investment projects in less fortunate Brazilian cities (i.e., those with higher incidences of poverty and lower Human Development Indexes) in the same population-size classes** as those that have been assisted through the Procidades credit line to date.[148]

9.2. Environmental and Social Management of Multi-sectoral Urban Development Projects

The statement in the preceding subsection regarding the assessment of potential indirect, induced and cumulative, as well as direct, environmental and social impacts clearly applies to the internal environmental and social management of urban development (and other types of) projects, including those with one or more components that are processed as global multiple works investments. **Notwithstanding the shortcoming described above with respect to the insufficient assessment of possible adverse indirect, regional and/or cumulative environmental and social impacts**, in general terms, the three Procidades projects visited in the field and described in the three preceding parts of this report seem to have done (Toledo) or are doing (Campo Grande and Curitiba) a reasonably good job of complying with Bank environmental and social safeguard requirements **during the respective construction phases** of their activities. In addition to the problem cited above, one other possible exception in this regard might be with respect to the application and full compliance with the Bank's involuntary resettlement policy in those cases where small numbers of people and/or businesses need to be involuntarily dislocated as the result of project investments (in most cases, road investments). In Campo Grande, for example, this occurred in several locations along the Orla Ferroviaria and Orla Morena areas. Given the small number of people or households involved, the project team leader was not clear as to exactly what is required (i.e., whether a formal resettlement plan is necessary) under the respective Bank policy.

On the other hand, the Curitiba project clearly offers a best-practice example as **to how to monitor and control the environmental performance of the various contractors engaged in**

[148] This is in fact what the earlier Bank-financed intermediate cities project in Minas Gerais attempted to do in the 1980s.

the execution of project activities, whether this be for physical infrastructure (i.e. roads and other transport and urban mobility improvements); slum upgrading and relocation housing development; or construction of new municipal social and administrative facilities. This refers specifically to the **environmental performance monitoring and supervision reporting methodology** developed and applied by the Procidades project management unit, as briefly summarized in the previous section of this report. This methodology **should be widely disseminated and replicated** in other Procidades and urban development operations supported by the Bank in Brazil and other client countries. The main limitation of this methodology is that it refers only to the contractors' environmental and worker health and safety responsibilities and performance **during the construction phase** of these investment subprojects and thus **does not also cover the post-construction "operation" phase of these subprojects. It also does not cover the types of longer-term indirect social (and potential environmental) impacts and/or individual or cumulative social distributional impacts**, as briefly described above for each of the three Procidades projects that were reviewed in greater detail as part of this present exercise. This, however, **does not detract from the great usefulness of this methodology as an instrument of project environmental performance monitoring, supervision and, ultimately most importantly, compliance for Bank-financed urban development and other investment projects that involve alteration of the physical, natural and, in some cases, surrounding human environments.**

9.3. The Role of the Bank and its Staff and Consultants

The Bank played an essential role in the development and application of the aforementioned methodology for monitoring and supervising the environmental performance of contractors for subprojects involving civil construction in Curitiba. According to the members of the environmental consulting firm that is presently assisting UGP for the Procidades Project — who were previously engaged in a similar process for the earlier Second Urban Transport Project in that city — **the strong encouragement and support by the Bank supervision team leader and another member were critical for the project's development and application in connection with that operation. It was also vital in later expansion and use in the Procidades project.**

The environmental supervision of some of the Procidades projects by ESG and/or its consultants, as in the case of Campo Grande in December 2009, was also a positive factor. However, it is unclear to what extent their recommendations were followed or implemented in practice.[149] On the other hand, some of the advice provided to executing agencies by a local environmental consultant hired by the Procidades coordination team in the Bank's office in Brasilia **has been questionable, as has the quality of the review of pre-project environmental studies and associated management plans.** Both of these situations occurred in the Campo Grande Procidades project. In its review of the combined up-front environmental studies and management plan for the sample subprojects for Via Morena, Orla Morena and Orla Ferroviaria, the Bank appraisal team inappropriately accepted the generic analysis and mitigation measures proposed, rather than requiring more location-specific and individualized ones for each of these subprojects, which fell under two distinct components (urban revitalization and transport and urban mobility). In addition, the Bank's local environmental consultant reportedly advised the project coordination team in Campo Grande that a location-specific environmental analysis and management plan was **not required** for the non-sample Avenida Julio de Castilho improvements, allegedly on the basis that the contents of these would be very similar to those required for the collective Via Morena/Orla Morena/Orla Ferroviaria subprojects.[150] While this is **true in generic terms, it again ignores the location-specific and other individual characteristics of the non-sample investment.** Similar shortcomings should be avoided in the future.

This situation raises a more general issue regarding the environmental analysis and associated management plan requirements for **non-sample subprojects in global multiple works operations**, such as those for Procidades. It is not clear based on the experience in Campo Grande **whether the Bank's local (non-ESG-hired) environmental consultants and ESG are "on the same page" with respect to the Bank's requirements** under OP-703 in this regard. The same is also the case with respect to the specific versus generic nature of the environmental assessment and management plan requirements for both sample and non-sample subprojects in

[149] In the case of Campo Grande, it is clear that this advice had no impact on the environmental analysis process of the non-sample Avenida Julio de Castilho improvement subproject (see below), for example, although it is not clear whether this process had occurred before or after the visit by the ESG consultant.

[150] Personal communication from Jussara J. de Almeida, Environmental Coordinator of the project, February 26, 2013.

multiple-works operations. This uncertainty likewise raises an even more general question regarding **the nature and quality of the environmental and social safeguards management framework for such projects** and how well it is currently functioning.

Based on the **limited sample of three projects** — one of which (Toledo) is already completed and another of which (Curitiba) seems to be a clear best-practice outlier in terms of application of a very innovative locally developed contractor environmental safeguards performance monitoring system — this study is **not in a position to draw any firm conclusions in this regard.** However, this situation should be further studied. In any event, there would appear to be a **need for greater guidance, training and oversight by ESG with respect to the decisions and advice provided by local environmental consultants** to ensure that there are no significant "disconnects" in this regard. This can be done both by ESG staff and/or its own specially trained local environmental and social consultants — i.e., consultants under ESG's direct supervision. **It may be advisable to place an ESG staff member in the Brasilia office to assist with these and other environmental and social safeguard-related oversight activities in relation to the Bank's very large and diverse portfolio** in the country. Whatever the eventual solution to this problem, however, it will have financial and human resource implications that will need to be addressed.

There are also indications that environmental supervision missions by ESG staff and/or consultants under its direct oversight can make a difference. The ESG consultant who carried out the environmental supervision mission in Campo Grande in December 2009, for example, found that the up-front environmental studies and associated management plan for the sample projects referred to in the preceding paragraph were inadequate. Considering the fact that the basis for the collective Via Morena/Orla Morena/Orla Ferroviaria improvement investments was the single deactivated railway line, it is, however, possible that under Brazilian environmental requirements, they were in fact viewed locally as a single project, rather than as three different (albeit physically linked) ones, as they are presented in the Bank's project documents**.** Nevertheless, the generic identification of potential environmental impacts in the up-front environmental studies and associated management plan for this collective spatial intervention perhaps should not have been accepted as such by the Bank and/or its local environmental consultant on the Bank's behalf as part of the up-front analysis of the project.

Despite these shortcomings**, the Bank nevertheless has a very important role to play in ensuring that the Procidades and other development projects are based on adequate environmental and social analysis or assessment studies and corresponding environmental and social management plans. The Bank should also guarantee that its safeguard policies are properly applied during project design and preparation and complied with during project implementation.** This is particularly important in the case of **projects that employ the global multiple-works modality** for specific components — as has tended to be the case for the urban transport and mobility components within the various Procidades operations reviewed in this report — or in their entirety. **This requires that the non-sample projects truly be consistent with those in the "representative sample" in terms of their basic characteristics and potential direct, indirect, induced or regional and cumulative environmental impacts; that they be adequately assessed in this regard prior to being approved by the Bank; and that the appropriate individualized and specific environmental and social management, mitigation and monitoring measures for each one be identified and budgeted prior to their inclusion as part of the project during its implementation**. Careful Bank supervision and oversight is thus essential in both regards.

9.4. Recommendations

In considering the following recommendations, it should be kept in mind that the present review examined only three of the first sixteen Procidades projects — only one of which (Toledo) has been completed to date — in any depth and through field visits to the project cities. Thus, the above conclusions should be considered as **indicative**, based on a relatively small sample of older Procidades operations, whose representativeness of the larger and continually expanding universe of such projects remains to be determined. The three cities visited nevertheless were in two different states and varied significantly in population size. Moreover, while all three were comparatively prosperous, one was not a state capital. In addition, each of the projects assessed in some detail clearly demonstrates elements of very good — if not best — practice. However, each also reflects one or more areas in which some improvement would have been helpful in view of the program's declared objective to "finance integrated municipal development programs, with emphasis on territorially focused actions [and] …be part of a municipal development plan that considers general priorities and prioritize the sectors with the greatest

social and economic impact, preferably oriented to low-income populations." Even the more intensive review of just three of these projects, moreover, is sufficient to reveal that this program offers a rich learning experience, or "laboratory," for both the Bank and the participating cities. That the Bank's project coordination team in Brasilia is fully aware of this is reflected in the good-practice case studies of key aspects of the Toledo and Campo Grande projects by a consultant based at the University of Brasilia, both of which were briefly summarized in the respective sections on these operations.

It is also evident that each of the individual Procidades projects is different in terms of its design approach to urban development. Each is also likely to be different in terms of its specific results, in environmental and social management and sustainability terms, as well as more generally. All three, moreover, either have been (Toledo) or seem highly likely to be (Campo Grande and Curitiba) successfully implemented, albeit with some delays at least in the Campo Grande case. All three also appear primed to largely achieve their appraisal targets and objectives. Nevertheless, given the small size of the sample of projects considered in the present exercise, a broader assessment is needed. This assessment should include both a more detailed examination as to how the approaches taken in these various operations have differed and evolved over time, as well as which components and subprojects have been more and less effective in terms of achieving their specific objectives to date. In short, a more comprehensive systematic evaluation of the design, implementation and results of this large set of ongoing urban development and municipal institutional strengthening operations is needed in order to draw a fuller set of conclusions and lessons from this widespread and ambitious program, in terms of its environmental and social management and sustainability aspects more generally.

Based on these introductory comments and the analysis and findings in the preceding sections, and keeping in mind the limitations mentioned above, the following recommendations are offered for consideration by the Bank as it moves forward with the Procidades program and urban development projects both in Brazil and elsewhere in the years ahead:

1. **Undertake a more comprehensive assessment of the design, implementation, and lessons learned from the various individual Procidades projects to date, both with respect to its environmental and social management aspects and more generally**. This could take the form of a kind of **"mid-term evaluation" or review** of the program as a whole, taking into account what has been learned from the

"older" projects. This would include those considered in greater detail above, but also others that are well advanced in their implementation, such as those in Vitoria (ES), Belfort Roxo (RJ), Ponta Grossa (PN), Aracaju (SE), Manaus (AM) and perhaps others. In at least one of these cases, a good-practice study is already available,[151] as are the results of specific environmental supervision,[152] in addition to regular periodic Bank supervision reports. One specific concern of any such evaluation should be a more systematic assessment of the nature and quality of the current environmental and social safeguards management framework for these projects, especially in relation to non-sample subprojects that are part of these global multiple works operations.

2. **In recognition of the rich learning experience that Procidades represents across a growing number of Brazilian cities, the Bank should proactively organize a program of information exchange among the participating urban areas and municipalities.** This can take a number of forms, none of which is mutually exclusive, and some of which may already exist. These may include: (i) a **program website**, ideally organized by the federal Ministry of Cities, in which individual project design and implementation experience, including examples of good practice such as those mentioned above, can be disseminated by each of the participating cities; (ii) **technical seminars or workshops** on specific approaches to integrated urban development and/or individual types of components or subprojects — urban "revitalization" or slum upgrading efforts, for example — or project aspects or themes, including environmental and social management arrangements and/or sustainability efforts; and (iii) **annual meetings of local project coordinators with the Bank's program coordination team** in Brasilia or hosted by one of the participating cities themselves in order to exchange experience and lessons learned with respect to project design, implementation and results more generally.

[151] See, for example, another study by Maria do Carmo Bezerra of the University of Brasilia on the Procidades project in Vitoria, entitled "Fatores de Incremento de Custos em Projetos de Melhoramento de Bairros: O Caso do Municipio de Vitoria, ES."

[152] See Verocai, 2009b.

3. **Revise and update the Program Operating Regulations based on experience with program and project planning and implementation to date, including the formal attachment of the Environmental and Social Management Manual, which is not presently included and which should itself be updated** (see the next item)**.** A similar arrangement already exists in the Bank-supported National Tourism Development Program (Prodetur) in Brazil in coordination with the federal Ministry of Tourism. This would also mean converting Procidades more formally into a national program with **a stronger potential coordinating role for the federal Ministry of Cities** similar to that for Prodetur and the Ministry of Tourism.

4. **Revise and update the Procidades Environmental and Social Management Manual to incorporate the findings and recommendations of the present review and other relevant learning that has taken place within the Bank with regard to the operation of this program over the past five years.** This manual, once revised and updated, should become more than just an "internal learning document." Rather, it should become **a formal set of environmental and social planning and management directives for the program**, as is presently already the case with the Environmental and Social Planning and Management Manual for Prodetur.[153]

5. **Among other aspects, the revised and updated Environment and Social Management Manual for Procidades — and, where appropriate, the Operating Regulations for the program more generally — should include the following *inter alia* in addition to its present content:**

    a. **Stronger orientation as to the measures required to meet the declared social objectives of the program, which should in fact be reflected in both the individual project and subproject eligibility criteria.** Greater emphasis should be given, for example, to components and subprojects that have positive social and economic benefits. Meanwhile, those located in predominantly middle- and upper-income areas and/or that benefit predominantly middle- and upper-income residents — such as the Rua Fredolim Wolf improvements in

[153] For a summary description of this manual, see the parallel good practice case study on strategic planning and social and environmental management in Prodetur (Redwood, 2013).

Curitiba and the Rhythmic Gymnastics and Martial Arts Training Center in Toledo — should be given lower priority, if included at all.

b. **Greater attention should be given to intermediate and large cities that are not among the already wealthiest or better-off in the country in socio-economic terms**. Indebtedness capacity should still be a constraint on which cities can be supported under the Procidades credit line and on how large the individual loans can be. However, the Bank should **proactively seek to identify — and provide technical assistance for project preparation to — cities in less developed and lower income regions of the country,** particularly the Northeast and North and parts of the Southeast. Such cities should be considered for financing for urban development and municipal institutional strengthening investments under the Procidades credit line. In this regard also, **the Bank's 50% *pari passu* local counterpart requirement for poorer cities** (based on their per capita GDP and/or HDI values for example), and/or those located in less developed parts of the country **might also be relaxed** in order to make Procidades resources more accessible to them.

c. **The program should be explicitly linked to the Bank's new Sustainable Cities initiative and project components. Subprojects should include as priorities integrated approaches to urban development and revitalization (as in Campo Grande); the incorporation of green spaces and other environmental considerations in the planning of future urban expansion (as in Toledo); and other environmental management and sustainability-oriented investments. They should also include efforts to promote "green" urban economies, such as energy efficiency and the use of alternative energy; other measures to mitigate and/or adapt to the likely impacts of global climate change; and solid waste management collection and disposal systems.** In short, Procidades should be seen and actively utilized by the Bank as a way of helping to support more environmentally sustainable and climate change-resilient cities in Brazil and elsewhere.

d. **The program should ensure that the potential positive and negative direct, indirect, induced and/or cumulative, environmental and social impacts of each of its projects and their subprojects that may involve alteration of the physical environment and/or affect surrounding neighborhoods, in both their construction and post-construction or "operation" phases, are specifically and carefully assessed as part of the subproject eligibility and selection process. Any necessary environmental and/or social impact minimization, mitigation and/or compensation and monitoring measures should also be included (together with the institutional responsibilities and capacity and financial resources to carry them out) in the respective project and subproject design, implementation arrangements and budgets.** This is particularly necessary in the case of **road improvements**, both in urban and (as with Toledo) rural areas, even when these take place in the rights-of-way of existing roads. These may have **considerable effects on property values and thus subsequent land occupation and use in their direct and, more importantly (as this is often overlooked), indirect areas of influence**.

e. **All environmental and social impact analyses or assessments of specific Procidades subprojects, in addition to taking possible indirect, induced and/or cumulative impacts explicitly into account, should be specific to the individual subprojects involved in terms of their physical locations and the environmental and socio-economic characteristics of their direct and indirect areas of influence. This should be so at the time this assessment is carried out, but should also take into consideration likely changes in the future** — e.g., the planned creation of a new "urban growth pole" in the area of the Rua Eduardo Pinto da Richa road improvement subproject in Curitiba**.** This was not the case for the combined environmental analysis of the interlinked Via Morena/Orla Morena/Orla Ferroviaria "revitalization" and urban transport subprojects in Campo Grande and the associated environmental management plans. These, therefore, should not have been accepted as such by the Bank, whether this is considered as a single intervention or three different ones.

f. **In global multiple works projects or project components, the Bank should ensure that all investment subprojects that are not analyzed as part of the "representative" sample are truly consistent with those in the sample, in terms of their characteristics. These include all potential direct, indirect and/or cumulative environmental and social impacts. In addition, as the selection, design and preparation of all non-sample subprojects are subject to the requirements of the Bank's Environment and Safeguards Compliance Policy (OP-703) and other policies, they should be subject to the same individualized process of environmental and social due diligence as the sample projects are.** As also observed above, this did not happen with respect to the Avenida Julio de Castilho road improvement project in Campo Grande, but it should have.

g. **All local environmental consultants hired by the local Bank Procidades coordinating team in Brasilia should be vetted, trained and supervised by ESG in relation to the precise requirements of Bank safeguard policies. The same should apply to those involved in orienting and evaluating the pertinent activities of client municipalities with respect to involuntary resettlement.** This measure is important in order to ensure that all municipal clients are being **fully and correctly oriented and supervised with respect to the application of Bank environmental and social safeguard policy procedures and requirements.** This is especially the case considering that in practice, the specific requirements and procedures, as well as the technical, institutional and financial capacity of, the subnational environmental agencies — not to mention the degree of political will and commitment to adequately comply with the pertinent environmental laws and regulations within the same subnational administrative units — differ, in some cases significantly, across the various Brazilian states and municipalities, as well as over time within each one.[154]

[154] While this variation is greatest across the municipalities, it may be significant even at the state level. This capacity in Sao Paulo, for example, is much stronger than in most other states, particularly in the less-developed Northeast and North. It may also differ in the same municipalities and states over time as a function of changing

6. **The above also suggests the following needs for the provision of additional guidance and associated training for Bank operational staff by ESG:**

   a. **In the context of OP-703, ESG needs to explicitly clarify what it understands by "indirect, regional and cumulative impacts," both in environmental and social terms and in terms of what is required in project-specific environmental analyses/assessments and associated environmental and social management plans.** This is particularly important in the case of Procidades and for investment projects in Brazil (and perhaps in other client countries) more generally, as the environmental analyses (as opposed to full environmental impact assessments) that are required for the environmental licensing of Category B type projects (as defined in national legislation) give little, if any, attention to such potential impacts. Therefore, they are normally not considered at all or are considered insufficiently in such studies. The same is true with respect to public consultation and information disclosure and some aspects of national policy and procedures with respect to involuntary resettlement, where there are also differences between what the Bank on the one hand and the Brazilian Government on the other require.[155]

   b. **Similarly, ESG needs to clarify the environmental and social due diligence requirements and procedures under the pertinent Bank operational and safeguard policies, including OP-703, for non-sample projects in the context of global multiple works projects or components and their investment subprojects.** It is this consultant's understanding that such an effort is currently underway by ESG and this initiative is strongly endorsed on the basis of the findings of the present review.

   c. **ESG also needs to clarify the qualifications and roles of all local environmental and social safeguard-related consultants in Brazil and elsewhere with respect to their capacity to properly inform local clients,**

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political will at the level of the presiding administrative officials (i.e., governors and mayors). Administrations may differ in their attention to compliance with national, state, and/or municipal environmental and other safeguard-related legislation, norms, standards and regulations.

[155] This problem was also found in the review of environmental and social analysis procedures for Category B-type investments under the Prodetur program in Brazil.

whether these be at the federal, state or municipal government levels, as to the specific requirements and proper procedures of Bank environmental and social safeguard policies. Ideally, ESG should have a formal **pre-qualification, training, monitoring and supervisory role** in this regard. Such consultants should moreover ideally be an integral part of **a broader Bank safeguard application practitioner network** to ensure that they are kept up-to-date on all aspects, including emerging good practice, with respect to how the various safeguard policies are being implemented by the Bank and its borrowing member country clients over time.

d. With respect to Procidades, more specifically, ESG should increase its support to the program as a whole and to its participating cities. It should do so through provision of the additional guidance suggested in the previous items, but also through its own direct environmental and social supervision of the individual projects, in close collaboration with the decentralized Bank project leaders and other local staff and consultants. This is important not only because ESG brings more detailed and up-to-date knowledge about Bank safeguard procedures and requirements, but also because it can add value to project preparation and supervision in terms of strategic planning and the incorporation and implementation of the aspects mentioned in recommendation 5 above. A specific request in this regard, for example, was made during this consultant's meeting with the program coordination team in the Bank's resident mission in Brasilia, particularly with respect to the apparently problematic slum-upgrading component in the ongoing Manaus Procidades project.[156]

7. Procidades should also make greater use of its obligatory municipal institutional strengthening project components to help build and/or consolidate local environmental and social planning and management capacity. It should do so with an eye toward improving both the sustainability of project investments and local urban development interventions more generally. Based on the sample of

[156] Personal communication by Marcia Casseb, IDB team leader for this specific project, on January 29, 2013.

projects reviewed, this does not seem to have been the case to date, although all three of the cities visited — and especially Curitiba — do already possess comparatively strong traditions and capacity in this regard. However, they are likely to be atypical in this regard in relation to many, if not most, of the other cities that currently have active Procidades projects, as well as to other Brazilian cities, particularly in the lower-income states and regions that have not yet been actively supported by the program to date. Thus, this is also **an area in which the Bank should be more proactive in the years ahead** and an additional way of directly linking the ongoing Bank-financed Procidades program and other Bank-supported urban development operations in Brazil to the Bank's new Sustainable Cities Initiative mentioned in recommendation 5(c) above.

8. **Procidades should also consider requiring that each of its constituent projects include a specific environmental and social management component.** Such a component could finance environmental improvements, as was the case in Toledo and, on a de facto basis, in Campo Grande (though, in practice, under the urban revitalization and urban mobility components), as well as the necessary environmental studies, including those of possible indirect and cumulative environmental and/or social impacts, and associated management plans. In this regard, the Prodetur sustainable tourism development program, also financed by the Bank in Brazil, provides a useful model, in which each of the individual state-specific operations **is required to contain an environmental management component**. The most recently approved of these projects, for the state of Bahia, also includes a number of specific **social inclusion activities** designed to help avoid or mitigate some of the possible adverse impacts of increased tourism. These project design changes, if adopted, would also help to bring Procidades more directly in line with the Bank's new Sustainable Cities Initiative, as recommended above.

9. **The use of management firms or "gerenciadoras" to strengthen project coordination in Prodetur and in the Procidades operation in Curitiba should be replicated in other Procidades projects as a way of strengthening their environmental and social safeguards management and their management more generally.** This approach has proven to be a valuable improvement in the context of

the current generation of state Prodetur projects[157] and has contributed strongly to the strong environmental and social performance monitoring and control mechanism developed and applied in Curitiba. It would be especially important in those Procidades projects where local coordination and/or executing agencies are comparatively weak and/or undergoing transition as the result of changes in municipal administrations, as well as in those that have less familiarity with Bank policies, procedures and requirements, including those with regard to safeguards.

10. **The environmental and worker health and safety performance monitoring and control methodology currently being used for all Procidades investment subproject contractors — initially developed with strong Bank encouragement and support in Curitiba, in connection with the Second Urban Transport Project, and further developed with continuing Bank support under the Procidades Curitiba operation — is an example of best operational practice. As such, it should be widely disseminated among and ideally applied in other Procidades projects, as well as in Bank investment projects in all relevant sectors in Brazil and more broadly.** This methodology represents a major contribution of Bank support to Procidades and other urban development operations in Brazil. The Bank should take the lead in terms of its dissemination and application to other sectoral and multi-sectoral operations it is financing at the national, state and local levels throughout Brazil and elsewhere in its client countries.

11. **Within the Bank, finally, Procidades represents an important initiative in terms of the decentralization of project preparation and analysis/appraisal — as well as monitoring, supervision and ex-post evaluation — to a field office. Thus, it also provides a rich internal learning experience in this regard. Accordingly, the efficiency and effectiveness of this unique arrangement should be independently assessed with an eye toward its possible use in similar urban development programs in other Bank client countries, as well as for other large multi-project programs, such as Prodetur, in Brazil and elsewhere.** This program coordination arrangement has the advantage and benefit of bringing the Bank staff engaged in

[157] See Redwood, 2013.

project preparation and analysis physically much closer to the client on a real-time basis. In this case, the client was comprised of participating municipalities, but the same is also true with respect both to the federal government (i.e., the Ministries of Planning, Finance and Cities) and state governments. This dynamic thereby **both strengthens responsiveness and support to project executors on the one hand and, in all likelihood, reduces Bank program-related preparation, supervision and other administrative costs on the other.** It also **facilitates relevant internal learning within the Bank**, at both the individual professional and entire coordination-team levels (and beyond), **as well as the transfer of this learning to the client municipalities and other entities**. Thus, it also represents good practice in this respect. This distinct feature of the Bank's Procidades experience, therefore, should not be overlooked. Indeed, it is an additional way in which the Bank can learn from this impressive subnational, multi-sectoral, and global multiple works program, both in terms of its environmental and social management and its sustainability aspects.

12. In this regard, the presence of an **experienced multi-disciplinary Procidades coordination team** in the Bank office in Brasilia is itself an example of good practice that could be replicated for other multi-project urban development programs elsewhere. However, it is essential that the Bank's Brasilia-based program coordination team continue to **account for the human, financial, institutional, and other resources required to permit it to give adequate attention to the multiple challenges entailed in program implementation**. These include the preparation, analysis, supervision and ex-post evaluation of an increasing number of individual projects, with their diverse investment and municipal capacity-building components and subprojects. The team thereby **also continues to count on strong Bank management and operational back-up support,** including with respect to its environmental and social management and sustainability aspects.

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