

1. Project Data:		Date Posted : 06/25/2014	
Country:	Brazil		
Project ID:	P089013	Appraisal	Actual
Project Name:	Recife Urban Development And Social Inclusion (capibaribe Melhor)	Project Costs (US\$M):	46.80 193.08
L/C Number:	L7497	Loan/Credit (US\$M):	32.46 19.61
Sector Board :	Urban Development	Cofinancing (US\$M):	
Cofinanciers :		Board Approval Date :	12/20/2007
		Closing Date :	06/30/2013 10/31/2013
Sector(s):	Flood protection (25%); Roads and highways (25%); Sewerage (20%); Water supply (15%); Other social services (15%)		
Theme(s):	Other urban development (29% - P); Urban services and housing for the poor (29% - P); Water resource management (14% - S); Pollution management and environmental health (14% - S); Municipal governance and institution building (14% - S)		
Prepared by :	Reviewed by :	ICR Review Coordinator :	Group:
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2. Project Objectives and Components:

a. Objectives:

The Recife Urban Development and Social Inclusion Project is the second operation in the Brazil Municipal Lending Program that is structured as a Horizontal Adaptable Program Loan (APL) consisting of up to eight operations for key cities having a common focus on poverty alleviation, urban environment, local economic development, and municipal management. These themes were selected by the federal government and the municipalities as priorities for this municipal assistance program. The individual projects also would be linked by a knowledge-sharing and policy analysis component at the federal level, which would be supported by one or more separate grants.

The Project Appraisal Document (2007, p. 7) and the Legal Agreement (2009. p.6) state identical definitions of the project development objective:

"to improve the well -being of the low -income population living in the Capibaribe River Basin area of the city and the fiscal, urban and environmental management capacity of the Recife Municipal Government ."

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components:

The three components supported under the project are presented below, showing project costs estimated at appraisal. Actual costs by component reported in the ICR are partial as the project components are expected to be complete over the period June 2014 - June 2016. Expected total costs to complete the components are indicative.

1. Institutional Development . (Appraisal US\$ 4.73 million; Actual cost at project closing : US\$ 2.37 million; expected total completion costs US\$ 4.80 million in June 2014). This component was to finance studies to help the Recife Municipality improve its monitoring and evaluation and strategic planning; strengthening of its capacity in the areas of environmental and urban management; financing of a Project Management Unit within the Recife Urban Development Company (URB) implementing agency; and funding of associated studies as needed.

2. Integrated Urban Territorial Development (Appraisal: US\$ 40.25 million; Actual cost at project closing : US\$ 33.05 million; expected total completion costs US\$ 179.67 million in May 2015). This component was to finance planned investments to build or improve water supply and sewerage systems for the target population; works to upgrade two existing public parks and build a third one; investments to rehabilitate and improve macro-drainage to reduce the risks of flooding in the Project areas; and the construction of a bridge across the Capibaribe River and of three connecting roads to improve communications across the river .

3. Environmental, Social, and Economic Development . (Appraisal US\$ 1.74 million; Actual at project closing: US\$ 0.40 million; expected total completion costs US\$ 1.53 million in June 2016). This component was to finance activities designed to promote income generation, environmental education, sports and culture, and community development.

None of the components were completed at project closure .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Cost

- Total project cost was considerably higher than planned because of severe cost underestimation during preparation. The additional cost is being financed by the Borrower .

Financing

- This Adaptable Program Loan (APL) was financed by an IBRD loan of US\$ 32.76 million of which US\$ 19.61 million had disbursed (59.86%). The remaining loan amount will be canceled (ICR p. 11). The undisbursed funds will be transferred to a future Development Policy Loan for Recife that would include the goals related to the project.

Borrower Contribution

- Actual borrower contribution is estimated at be US\$ 158.8 million to complete the still ongoing activities . This amount is considerably higher than the amount of US\$ 14.04 million estimated at appraisal.

Dates

- The Project became effective October 2009, 22 months after Bank approval.
- In June 2013 there was a Level-2 Restructuring to extend the closing date from June to October 2013 to provide time for the endorsement from the Guarantor to proceed with a Level -1 restructuring including changes to the project scope, overall costs and disbursement arrangements and an 18 month extension of closing date. However, the restructuring was not processed because the Guarantor did not provide the required endorsement before the revised closing date at which time the project closed .

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

High

The objective of improving the well-being of low-income groups in urban areas and strengthening municipality management capacity are highly relevant . Recife is the fourth largest urban agglomeration in Brazil with the most unequal income distribution. The objective is also in line with the government priority of modernizing public sector management, reducing poverty and improving opportunities for vulnerable populations . The objective was highly relevant in the context of the national program for economic growth (PAC), which allocated more than half of its budget to social and urban investment in the Northeast region .

The objective remains highly relevant with regards to several result areas of the current Bank Country Program Strategy FY12-14, including regional economic development, sanitation, water and environmental management,

and public sector management.

b. Relevance of Design:

Modest

Recife qualified for inclusion in the Horizontal APL on the basis of the following characteristics common to the eight participating municipalities: (i) they are strategic economic and governmental centers at the national or regional level (four of them are state capitals and three of them are in the Baixada Santista region, the main logistics corridor in São Paulo state), (ii) the municipal governments are committed to addressing issues on a large scale and to making reforms for sustainable improvements in city management, and (iii) the municipalities are in compliance with the Fiscal Responsibility Law and have been authorized by the Federal Government and by the respective municipal legislature to prepare projects for World Bank financing, subject to subsequent authorization by Secretaria do Tesouro Nacional for borrowing.

The project objective is clearly defined, and the components included activities to improve the well-being of the poor. The design's causal chain logically links project objectives with most project components and activities. Municipality management capacity was to be strengthened by institutional capacity building. Project activities related to urban development are linked to improving the well-being of low-income groups. However, it did not include a comprehensive fiscal program to reach the fiscal objective and related targets. The design was also relevant for the Bank's integrated urban-water management approach. The design used a sequenced approach with implementation in two groups of municipalities which is relevant for cross-municipality learning. The design adequately focused on informal low-income settlements (ZEIS) along the river, and attempted to reach about 70,000 poor households. The design was informed by previous project experience (Prometropoles).

The design was innovative as it allowed the Bank to lend directly to municipalities to improve urban areas; however, but with that it also created new risks. The loan amount unduly stretched the borrowing capacity of the Recife municipality over several years and misjudged the capacity of the municipality to manage the detailed design and costing process. Thus its multi-sector focus (urban management, environment, and income generation) was too ambitious. It also did not support activities with adequate resources and as a result several activities could not be implemented.

Weaknesses in the results framework limit the analysis on how project activities have contributed to the objective.

4. Achievement of Objectives (Efficacy):

"to improve the well-being of the low-income population living in the Capibaribe River Basin area of the city and the fiscal, urban and environmental management capacity of the Recife Municipal Government ."

There are two sub-objectives: (a) to improve the well-being of the low-income population living in the Capibaribe River Basin area of the city; and (b) to improve the fiscal, urban and environmental management capacity of the Recife Municipal Government.

Most project activities were not completed at closure and continue to be implemented with government funding.

(a) to improve the well-being of the low-income population living in the Capibaribe River Basin area of the city: *Negligible*

Outcome

- Property value of poorest housing was not measured and relevant project activities have not been completed.
- The proportion of population satisfied with water supply, sanitation, access and mobility, drainage, parks and environment was not measured and relevant project activities have not been completed.
- The project funded three public parks and one bridge with access roads and urban roads subsystems, which will be operational once commissioned by departments of the Recife municipality.
- The ICR (p. 16) reports that the 2 completed parks are frequently used by local residents and contribute to their well-being, as do the completed urban roads and the Job Generation Center. The project aimed to reach about a quarter million low-income inhabitants; however the actual number reached fell substantially short of the number originally projected.

Output

- Integrated macro-drainage and flood control improvements were completed in four out of 11 canals.
- 2 out of 3 multipurpose urban parks were rehabilitated and are benefiting the poor population.
- 1 Job Center was refurbished and is now operational.

- 581 individuals attended vocational training in Job Center rehabilitated by project . Target of 100% increase from 0 surpassed.
- 80% of beneficiaries of vocational training were satisfied . Target met of 20% increase from 0.
- 400 individuals benefited from environmental education, meeting target of 100% increase from 0. However, no information is collected on learning outcomes .

No information is collected on the following indicators and relevant project activities have not been completed :

- The percentage of population living in flood-prone areas .
- Resettled informal low-income households along the river with legal land tenure .
- Two planned recycling triage centers were not built hence no information on client satisfaction .
- Access to water and improved sanitation in urban areas was not improved and related project activities not implemented yet.

(b) to improve the fiscal, urban and environmental management capacity of the Recife Municipal Government: *Negligible*

Outcome

- The number of Special Social Interest Zones increased by 1 from 6 in 2007 to 7 in 2013. Target of 40% increase not met.
- Net consolidated debt to net current revenue rate decreased from 28% in 2007 to 12% in 2013 meeting the target of less than 40%. This achievement was not influenced by project activities (ICR pp. 11, 14).
- 4 Special Environmental protection Zones with management frameworks were created between 2006 and 2008 and *before* the project became effective .
- ICR (p. 16) reports that the creation of the Secretariat of Environment and of the Institute of Urban Planning created in 2009 contributed to management capacity at the Recife government .

Output

- Current account savings in municipality increased from RS 100 million in 2007 to RS 453 million in 2013 surpassing the target of RS 128 million. However, it is not clear how project activities contributed to this result.
- Municipalities reported a deficit of RS 96.54 million in 2013 not meeting the target of a positive balance .
- Personnel expenditures to net recurrent revenue remained at 46% not meeting the target of below 45%.

5. Efficiency:

Negligible

At appraisal an economic rate of return of 25% was estimated. However, none of the project components has been completed within the expected project time frame . Considering the quadrupling of project costs, and no evidence of benefits, the actual rate of return is most likely to be considerably below 25%. Resettlement costs were substantially higher than anticipated due to high land prices .

Project funds were used inefficiently . After over three years of project preparation after which the project was approved, it took the government another two years to sign the loan agreement, which delayed effectiveness . Implementation did not start until 2010. Additional time was lost in 2012 and 2013 during restructuring discussions. During these years the project was stalled without an agreement on restructuring .

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	25%	100%
ICR estimate	No		

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Relevance of project's objective is High and of the project design is Modest . Achievement of the objective of

improved well-being of the low-income population is rated Negligible. Achievement of the objective of improved fiscal, urban and environmental management capacity of the Recife Municipal Government is also rated Negligible. Most project activities have not been completed. Project efficiency is rated Negligible. There are severe shortcomings in the project's achievement of objective and efficiency.

a. Outcome Rating : Highly Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

- The development outcomes have not been achieved, and financial, institutional and resettlement risks seriously affect any progress toward the development outcomes.
- Investment costs have been escalating and may continue to grow. Fragmented financing from different sources negatively affects financial management cost.
- The Task Team subsequently stated that the Borrower has secured substantial alternative sources of funding for the project to enable incomplete work to be finished.
- The project did not build sufficient institutional capacity to ensure continuation. There is insufficient evidence of government ownership for this project which poses a high political risk.
- The operational and maintenance of the bridge and access roads financed under the project will have to be financed by the Recife municipality.
- Although the Bank committed to provide continued supervision, the resettlement risk remains for about 760 families affected by the project.

a. Risk to Development Outcome Rating : High

8. Assessment of Bank Performance:

a. Quality at entry:

Despite the more than three-year preparation period, the Bank team substantially underestimated project costs. Relevant technical designs and inputs, such as bidding documents, were not prepared. Instead the focus was on generic social and environmental studies. Insufficient attention was given to the institutional context and the capacity of the Recife Municipality was overestimated to manage a complex project with limited resources. As a result resource allocation to the components to achieve project objectives was unrealistic. The team designed a project with a poor results framework and some activities were not logically linked to objectives and some were missing (e.g. fiscal framework). The M&E design and implementation arrangement were inappropriate to measure progress. These flaws during project preparation severely compromised project implementation and outcomes.

Quality-at-Entry Rating : Highly Unsatisfactory

b. Quality of supervision:

It took the project almost two years of the to become effective in October 2009, and during that time Bank supervision was slow and not proactive. Weaknesses from the preparation phase were not initially addressed and project activities and cost as well as results framework were not restructured. Although detailed engineering designs were contracted in 2008, bidding documents were only ready by 2010. After effectiveness, the Bank team changed and the new team intensified supervision. The new team discovered the substantial cost underestimates and recognized the need for restructuring. In 2010, the Bank team reallocated loan funding to finance selected project activities aligned with the project objectives. Restructuring proposals were submitted in 2012 and 2013. However, the Bank was not successful in convincing the government about the need for timely restructuring, and the project closed with most activities incomplete. Even so, supervision of safeguards was adequate and the Bank is committed to supervise outstanding resettlement that is estimated for completion in 2018.

Quality of Supervision Rating : Moderately Unsatisfactory

Overall Bank Performance Rating : Unsatisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Borrower was the municipality of Recife. Borrower commitment to this project was severely tested by the lengthy preparation of the project that was exacerbated by further delays after approval. The Federal Republic of Brazil was the guarantor to this IBRD loan and it took the federal government substantial time (from January 2007 until October 2009) to sign the Loan Agreement. This is in marked contrast to the 6 months it usually takes to provide federal approval for a federal project. Primary causes of the delay was that the Recife municipality was in non-compliance with fiscal limits and required certification of mandatory expenditures under the Federal Fiscal Responsibility Law, which postponed project effectiveness. Similarly, in 2012 and 2013 there were delays by the Government in considering restructuring.

The Recife municipality helped prepare the project with a design that had serious flaws, and funded several of the studies. Once cost overruns were identified, the municipality identified alternative funding sources to finance continued project implementation. At the end of 2012 the municipality approved a first restructuring proposal by the Bank team; however, shortly afterwards Recife elected a new Mayor who requested a review of project activities by the new administration, and a shift toward policy lending. One month after the project had closed, the Bank received the official notification of approval for project restructuring from the government. Under the new mayoral leadership in 2013, URB staff were gradually dismissed leading to a loss in institutional capacity that had been built. Borrower comments in the ICR (p. 36) state that this decision was taken to integrate project management units in the government.

Government Performance Rating

Highly Unsatisfactory

b. Implementing Agency Performance:

Recife's Urban Development Company (URB) implemented the truncated project successfully. Project progress reports were submitted regularly and on time, and included relevant information on project activities and issues faced. There were shortcomings at the beginning with adherence to Bank procedures but these were addressed and URB benefited from the project's institutional capacity building. URB successfully accessed additional sources of financing to implement project activities not financed by the Bank following the reallocation of loan amounts in 2010. However, project M&E remained weak. Financial management was satisfactory and there was compliance with procurement requirements and safeguard policies (ICR, p. 12).

Implementing Agency Performance Rating :

Moderately Satisfactory

Overall Borrower Performance Rating :

Unsatisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The M&E design was seriously flawed and did not link indicators with activities and expected development outcomes (ICR p. 11). It included some indicators for which the targets could be achieved without any project activities. Targets were similar to baseline values. Several targets required a 100% increase from 0 which does not make any sense. The design did not adequately plan and budget for data collection to report the relevant indicators.

b. M&E Implementation:

Data collection to measure relevant project progress was not implemented. Government ownership for project M&E was minimal. The project financed the implementation of an information management system for human resources.

c. M&E Utilization:

There is no evidence that project M&E was used in policy .

M&E Quality Rating : Negligible

11. Other Issues

a. Safeguards:

The Project has been classified as a Category A project under OP /BP 4.01 Environmental Assessment and four other safeguard policies were triggered . Natural Habitats (OP 4.04), Pest Management (4.09), Cultural Property (OP 4.11), and Involuntary Resettlement (OP/BP 4.12).An environmental impact assessment (EIA) has been carried out and the Environmental Management Plan was incorporated into the project design .

The Involuntary Resettlement Framework was of good quality and met the Bank's requirements (ICR p.12). Bank supervision oversaw strengthening of protection of resettled households through the preparation of three Resettlement Action Plans (RAPs). RAPs related to the Project activities financed by national programs were developed in compliance with the applicable Bank rules, and incorporated the inception of grievance procedures. Even so, the ICR (p. 12) rates the Borrower's compliance as Moderately Unsatisfactory . At the time of Loan Closing the resettlement of about 760 families affected by road and bridge construction, urban upgrading and macro-drainage works was still pending. The Borrower has developed and agreed with the Bank on an action plan for the satisfactory completion of the RAPs, as well as on a monitoring strategy to 2018. They have also provided all the financial and legal guarantees that the above will be carried out . The Bank will continue supervising the resettlement of these families until 2018. I

b. Fiduciary Compliance:

Financial Management . Compliance with financial management procedures was satisfactory . The ICR does not report on the quality of audit reports . The Task Team clarified that audit reports have been delivered with minor delays. Auditors have issued unqualified opinions over the project financial statements . Management letters identified internal control areas for strengthening, including proper staffing arrangements and having the IFRs (unaudited financial statements) run through the municipal administrative systems . Actions plans have been agreed and partially observed . One audit report is expected to be completed by June 2014.

Procurement : Recife's Urban Management Company was proficient in applying Bank procurement guidelines (ICR p. 12).

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Highly Unsatisfactory	There are severe shortcomings in the project's achievement of objective and efficiency: efficacy and efficiency are rated negligible. The ICR also provides a Negligible rating to achievement of objectives and of efficiency. It then rates the overall

			outcome as Unsatisfactory instead of Highly Unsatisfactory contrary to the Harmonized Evaluation Criteria for ICRs.
Risk to Development Outcome:	High	High	
Bank Performance :	Moderately Unsatisfactory	Unsatisfactory	Quality-at-entry is rated Highly Unsatisfactory and Supervision is rated Moderately Unsatisfactory .
Borrower Performance :	Moderately Unsatisfactory	Unsatisfactory	Government performance is rated Highly Unsatisfactory and Implementing Agency performance Moderately Satisfactory . In accordance with the Harmonized Evaluation Criteria for ICRs, the outcome rating determines the overall rating for Borrower performance.
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The ICR reports several important lessons (p. 20 - 22). Three of them are highlighted below:

Excessive preparation period should be avoided and technical roll -out assured . In this case, long project preparation weakened the commitment by the borrower . Preparation time should be adequately used to have the necessary studies and technical designs ready to kick -start project implementation . In countries where government political cycles are short a framework operations approach can lead to higher political ownership .

Resettlement determines project timelines and costs . In densely populated urban areas resettlement is often slowed by the availability of available land for the building of substitute housing and high land prices . In this case, related cost were considerably higher . To facilitate resettlement activities, the Bank should reassess the status quo for social housing and mechanisms and rephrase its agenda accordingly .

Subnational lending requires substantial capacity -building . The gap in institutional capacity in local government must be addressed early on . Resources should be allocated to these capacity building activities . In this case the design should have included more capacity -building activities in urban planning, taxation and land use, and less investment in infrastructure .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR is satisfactory in its presentation of evidence . It is concise and well articulated . There are some weaknesses . Total actual and expected project cost in Annex table 1 do not add-up; this was subsequently amended by the Task Team . The outcome rating was not correctly summed up . The ICR does not provide an assessment of the relevance of project design; though it does identify design weaknesses throughout the report .

It does not report on compliance with audit requirements; this was subsequently amended by the Task Team .

a.Quality of ICR Rating : Satisfactory